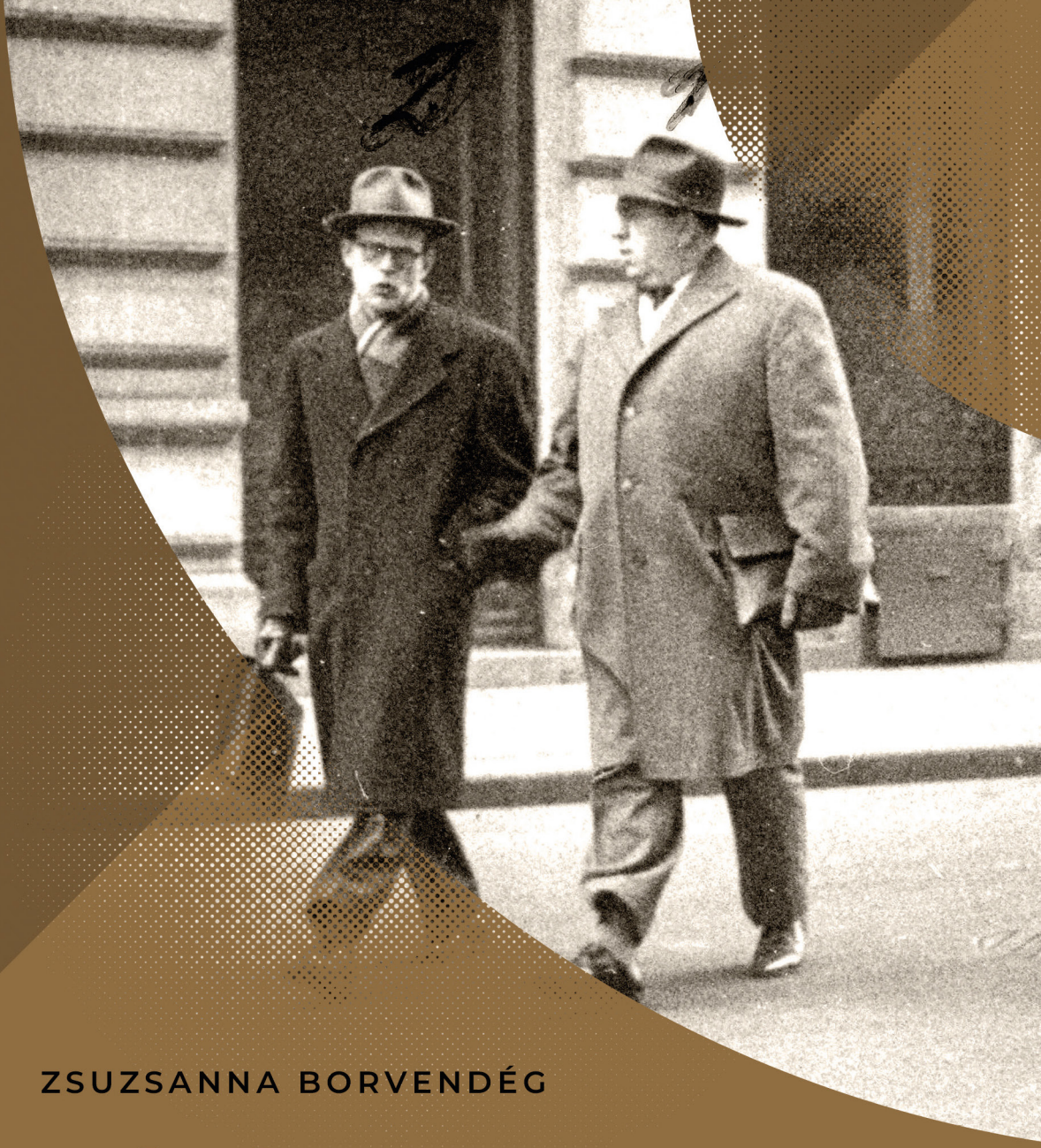

ZSUZSANNA BORVENDÉG

Fabulous Spy Games

How international trade networks with the West developed after 1945

MAGYARSÁGKUTATÓ INTÉZET

ZSUZSANNA BORVENDÉG

Fabulous Spy Games

Publications of the Institute for Hungarian Studies 2.

ZSUZSANNA BORVENDÉG

FABULOUS SPY GAMES

How international trade networks with the West developed after 1945

Magyarságkutató Intézet
Budapest, 2021

Reviewed by Pál Germuska

Translated by EDMF Language Services Kft.
Proofread by Piscis Aureus Bt.

MKI editorial board: László Tamás Vizi (chairman), Bence Fehér,
József Álmos Katona, Attila Kovács, Péter Pomozi, István Virág

The publication of this book was sponsored by EMMI.
A kötet megjelenését az EMMI támogatta.

Emberi Erőforrások
Minisztériuma

© Zsuzsanna Borvendég, 2020, 2021

ISBN 978-615-6117-29-8
ISSN 2786-1317

CONTENTS

INTRODUCTION 7

EMIL HOFFMAN AND HIS CIRCLES 15
In a jungle of secret services 15
Atlas GmbH 21
Nazis reloaded 29
The road to the Stasi 37

'THE HUNGARIAN MAFIA' 43
The red octopus 43
The secret man behind the scenes: János Nyerges 51
A chink on the peace front: Frankfurt am Main 61
The key to success 74
A Cold War Hungaricum 81

'FABULOUS' IN HUNGARY 97
Economic diplomacy 97
The role of Frankfurt 108
The powerhouse of industrial espionage 121
Sympathetic journalism 127
End game 139

ATTACK ON THE OMFB 153
Storm clouds 153
The Siemens lobby 160
Ties running deep 174

FINAL THOUGHTS – TRAPPED IN THE NETWORKS 183

BIBLIOGRAPHY 193
Archive sources 193
References 195

APPENDIX 205
Abbreviations 205
List of Photos 209

INDEX 209

INTRODUCTION

A middle-aged, heavy-set and balding man stepped outside the Duna Hotel. His immaculate grey suit and chow chow brown shoes screamed a source other than the department stores of socialist Budapest. He cast a brief, concerned look around, but his eyes lit up and he cheerfully headed towards Vörösmarty Square. He was adamant he was being watched. Confidence, as it were, could save his life. It was still early, the cool breath of dawn was still lingering in the doorways guarding padlocked shop doors, but the rays of the rising sun were already dancing on the panes of shop windows to dazzle passers-by with their blinding brightness. The man moved to the shady side to pause dreamily in front of the arched windows of a shop. He was staring at the tastefully arranged merchandise, but keen-eyed observers may have spotted the searching glances he shot to keep track of those passing behind him or gazing around the square. Turning around abruptly, he hurried back to the hotel. Two plainclothes officers followed him at a respectful distance.

An hour-and-a-half later, he was back on the street, where he slipped into his green Opel Record with a flourish. He tossed his briefcase casually onto the back seat and drove off towards Roosevelt Square. The two plainclothes detectives looked at their watches, but made no move. A black car turned lazily on the street and followed the Opel. A game of cat and mouse. Zig-zagging through the nearby streets of the inner city, the West German car suddenly found itself at the hotel again. The foreigner may have lost his way. Or was he just checking? The car slowed down at the entrance of the hotel and the policemen posted outside may have noticed him nodding to them. He drove on. He had an important meeting scheduled with the vice-chair of the National Technical Development Committee. Smuggling embargoed technologies was a lucrative business indeed, he could make a lot of money. He just had to keep his wits about him, the room was bound to be wired. As old business

associates, they could make themselves understood in snatches of sentences. An hour later, he left the building that hosted the meeting with a satisfied smile and was off again. During the day he visited the headquarters of a number of foreign trade companies, none of the meetings lasted longer than 30 minutes. On his way back, he stopped at Vörösmarty Square and entered the renowned confectioner's shop there. Searching for someone, he looked around. Since the person was not there, he returned to his car and drove to the hotel. The black car rolled lazily past the parked Opel to stop somewhat further away. The two men glanced at their watches again.

With his jacket over his arm, the mysterious chap left for a walk a few more times. Every time his destination was the confectioner's, where he entered, looked around and left. He strolled casually, stopping at shop windows now and then to stare for minutes on end at the reflection of the goings-on of the street. It was getting late, he would surely not meet whoever he was expecting that day. This time around, he would have dinner alone at the hotel.

The two men were standing around across the street for some time. They looked at their watches and left their posts. The report was typed at the central office to be placed by tobacco-stained fingers inside a dossier with a cover that read: 'Fabulous'.[1]

Only part of the story above is a figment of the imagination. Emil Hoffman, or 'Fabulous' as he was known to counterintelligence, was indeed a prominent person of interest to the state security apparatus. His every move was carefully watched every time he arrived in Hungary, which happened often. In the early 1960s, he was a key figure in East-West trade and knew nearly everyone, as well as everything and anything about foreign trade transactions through his

1 The Historical Archives of Hungarian State Security (ÁBTL) holds 20 volumes of information gathered while observing Emil Hoffman, including countless reports of his outside surveillance. ÁBTL 3.1.5 Series O-12344. The teaser above was written based on such reports.

extensive connections, which piqued the interest of the secret services. By his own admission, he was manoeuvring through the jungle of secret services all his life, but nobody ever managed to recruit him.[2] Could this be the truth? Knowing the details, probably not, particularly if you consider the Third Reich's military intelligence, the Abwehr, to be a secret service, alongside the notorious Gestapo, which could best be described as a political secret police. Yes, Emil Hoffmann was a Nazi much like a number of his partners and business associates, all of whom paved the way for the economic relations between the two blocs during the Cold War.

Hoffmann's life is fascinating in itself, since he operated after WWII in the areas that ensured interoperability between the two world orders and counted as the strongholds of espionage: foreign trade and journalism. Taking Hoffmann out of the network surrounding him would leave us with an exciting but average story that would divert attention from the most startling correlations that make one question the very basis of our knowledge of the bipolar world. Unveiling Hoffmann's activities and the activities of those related to him sheds light on a complex web of networking, at the very heart of which lies the way in which the business elite of the countries building socialism became entwined with former war criminals championing the national socialist idea, who were curious enough to avoid prosecution. This started with the funding of subversive secret organisations promoting communist internationalism and extended to the recovery of the social and business capital of top Nazis. Seemingly, both political and everyday public narrative was dictated by cold war propaganda, which condemned the power structure of the other side based on ideological grounds. In the meantime, however, a game completely lacking any moral scruples was being played out by the two calamitous and inhuman dogmas of the 20th century, Nazism and communism, both of which collaborated with the democratic West. The framework for all this was, of course, provided by the strict rules of the capitalist market.

2 Hoffmann 1955, p 12

This story leads us into the world of secret services, without an understanding of which it is almost impossible to grasp the situation in the Cold War.[3] A new type of warfare started after 1945, where open, armed conflicts were relegated to the status of mere local skirmishes, and where secret powers, carefully hidden from voters, played grand political games behind the scenes through diplomatic negotiations and the application of economic pressure. More often than not, the true enemy was to be found elsewhere than indicated by the political propaganda, and alliances that might have seemed utterly irrational for outsiders were forged behind closed doors. The Hungarian secret services also had a role to play in these clandestine games. Following the revolution in 1956, Hungary undertook the task of opening up to the capitalist world, welcoming also an influx of Western capital and technologies.[4] János Kádár depended on this to stay in power, since he needed funds to create goulash communism and the Soviets needed a Trojan horse to wheel over to the other side.[5] This book also reveals that Kádár's opening up to the West was not without antecedents. In fact, the economic channels that later proved to function as the

3 A number of studies have explored secret service activities during the Cold War. As a non-exhaustive list cf. Andrew – Mitrohin 2000; Bartošek 2003; Kotek 2005; Macrakis 2008; Schmidt 2005.

4 On Hungary's western relations and her balancing between great powers, cf. Kalmár 2014; Borhi 2015; Békés 2019

5 János Kenedi pointed out in the mid-2000s that Hungary played a unique role within the Bloc, which gave rise to the world of 'goulash communism', a soft dictatorship: 'Within Comecon and the Warsaw Treaty, the military industry job delegated to Hungary was to transfer funding. Contrary to the popular belief that this was meant to compensate Hungary for the retributions of the revolution in 1956, Hungary evolved into 'goulash communism' and became a seemingly laxer dictatorship than the other Soviet satellite countries, because it was supposed to receive credits from NATO and other western countries to acquire forbidden COCOM-listed items, particularly after 1972, through industrial espionage, diplomatic ties and other sources of information for the Soviet Union, have these manufactured mostly in Bulgaria and in East Germany, and bring in the profits from the money thus made in the illegal money markets. Hungary accumulated a national debt of 23 billion US dollars during the acquisition of western loans to fund 'goulash communism', but the tremendous profits made from this transfer is numerically incorporated into the current Hungarian economy. These became integrated into the activities of business and political circles. It was impossible to remove both from budgetary organisations and the private economy.' Kenedi 2006, p 12

basis of the subsequent web of nexuses were built as early as the early 1940s. The idea worked perfectly well, Hungarian intelligence achieved outstanding results both in terms of trade cooperation and in exerting influence on western societies. To our present knowledge, military intelligence (Division 2 of the General Staff of the Hungarian People's Army, MNVK-2) was deeply involved in such secret service games that the presence of military intelligence could be detected behind most of the key figures identified so far. There were experts trained by the operative network of military intelligence who spoke a number of languages and were suitable for establishing and maintaining western relations. Driven by their patriotism, these men undertook their assignments voluntarily, and were recruited in a less formal way than the agents of the State Security Division of the Ministry of Interior. We have found evidence that they chose not to require even a recruitment statement or an agency agreement to be signed, and it stands to reason that the operational files were certainly not completed in each and every case either.[6] The members of the network were not called agents but "committed sources" (in original Hungarian: "megnyert" or "won"). They agencies did indeed try to "win" the given person over for the cause, hence the Hungarian description. Given that the archives of military intelligence are searchable to a very limited extent, for now we know little about these committed sources, but it is safe to say they had a strong presence in the areas of both the economy/foreign trade and journalism.[7] Hungary played an exceptional role in trade between the two blocs: from 1972, foreign trade companies were given the opportunity to establish businesses in the capitalist West without requiring additional permits. A world was beginning to take shape. Networks of companies with ownership structures that were impossible

6 The director of Chemokomplex Ervin Gazdag's R dossier (recruitment dossier) with MNVK-2 was moved to the archives of the Ministry of the Interior to be added to his file kept by civilian intelligence. Lieutenant-colonel Benedek Markotán stated the following in a proposal: "This is to report that the said person was engaged as a committed source from October 1959 onwards, although he was not formally recruited. His actual engagement was discontinued in 1970. From this time forward, he was used occasionally as an official contact.' ÁBTL 3.2.1 Bt-1899. 50. Recommendation, 3 May 1974

7 Kenedi 2015, p 103

to disentangle enabled the import of embargoed products to the eastern side of the Iron Curtain on the one hand, and also provided some scope to educate a new generation, the members of which had the opportunity to learn the ropes of the capitalist market economy, which gave them an unbeatable advantage at the dawn of the change in political system. They had money in their pockets, know-how in their heads, and a plethora of nexuses and relations behind them. Describing the rise of the Kádárian foreign trade lobby, the book 'The Age of the Impexes' focused on these, presenting a number of convincing examples to demonstrate how the profits of state foreign trade made their way into private pockets, and how the skimming of these profits made the import-export business a loss-making enterprise for Hungary.[8] One of the main contributing factors to the country's indebtedness was the constant deficit of the trade balance, so we can regard the functioning of the network built with secret service methods as one of the critical factors resulting in the economic dilemma that eventually overwhelmed Hungary. This book makes an attempt to identify who the persons who laid the foundations for the foreign trade lobby and its ensuing rise were, and where they emerged from.

❖

While writing this book, I tried to come up with a story that is comprehensible and meaningful in itself. Even so, it may prove a challenging read without an understanding of my previous books. The significance of military intelligence in these matters has been pointed out in my major study entitled Disguised as Journalism, explaining how the tasks Hungarian journalists were charged with by the Soviet secret services made way for Kádár's western-oriented politics.[9] The monograph Won over by the Firm – the Firms of Those Won Over actually starts where this book ends.[10] The book introduces the reader to a number of secret service methods elaborated to

8 Borvendég 2017
9 Borvendég 2015; Borvendég 2019
10 Borvendég 2018

fund communist internationalism, and shows clearly how a corrupt foreign trade network under the cover of the secret services was built and opened up the opportunity to create a capitalist economic elite within the framework of a socialist market economy, and beyond that framework, in fact, by illegally using secret commissions and 'constitutional costs'. 'The Age of the Impexes' tried to get to the bottom of how this elite was linked to international financial networks, describing the method used by the group of socialist capitalists to transfer the accumulating profits into offshore companies and offshore bank accounts; and shedding light on the crucial role that technology transfer and embargoed transports played in this mechanism. These revelations offered a new approach to understanding the Kádár system, these correlations, however, are far from frequently discussed in academic or everyday public discourse. The limitations of this book do not allow me to support every claim I have made in previous books with new evidence, or to explain them, so I apologise to readers who may have a harder time following the events unfolding along a number of lines and the series of often far-reaching correlations without knowledge of the background or history of such events.

My research and the writing of this book was sponsored by the Topical Programme of Excellence. A huge thanks should go to my employer, the Institute for Hungarian Studies, and my colleagues, Director General Dr Gábor Horváth-Lugossy and Deputy Director General Dr László Tamás Vizi, who ensured all the necessary conditions were satisfied to support my work. I am grateful also to Zsófia Előry for her solicitous and thorough proofreading, and I am also thankful to Szilárd Simon and Petronella Erdei for their patient and forthcoming assistance with the administrative chores of the project. The editor of this book, as with my previous works, was Dr Pál Germuska, whose outstanding professional knowledge contributed to enhancing the quality of the content. I am forever indebted to him. My conversations with Gábor Ligetfalvi inspired me greatly, his ability to put his finger on the essence of things and his understanding of the operation of various networks spanning different historical periods helped me look at events with a broader perspective. Let me also thank my first reader, András Halász, whose merciless criticism puts my sentences in order and weeds out the occasional mixed metaphor. But

first and foremost, let me thank my husband, Zoltán Horváth, for listening to the trains of thought about the latest piece of the puzzle I happened to find while writing this book with endless calmness and meticulous attention, and for the precision of the engineer that he is, with which he attempted to keep both my feet on the ground.

EMIL HOFFMAN AND HIS CIRCLES

In a jungle of secret services

On 17 March 1959, Hungarian military intelligence, known as MNVK-2,[11] requested that counterintelligence from the Ministry of the Interior (Division III/II) keep a West German citizen under surveillance. Emil Hoffmann was identified as a person suspected of being a spy and probably linked to several capitalist intelligence agencies. The source of the information was Soviet counterintelligence, the secret services of the Eastern Bloc and the agency's own evidence. Counterintelligence took the warning from the military seriously, and, based on the preliminary information gathered, concluded that a personal dossier should be opened to collect documents on the journalist[12] and assigned him the befitting alias of 'Fabulous'.[13] Confirmation from the Soviet, Bulgarian, Czechoslovakian, East German, Romanian and Polish secret services, which

11 Military intelligence was Division 2 of the General Staff of the Hungarian People's Army (MNVK-2) between 1953 and 1990. MNVK-2 gathered intelligence against military targets, its task within the Warsaw Pact was to keep the military operational corridor along the Danube (mainly Austria and South-Germany) and military targets in Northern Italy under surveillance. As the intelligence service for a Warsaw Pact country, Hungarian military intelligence was also under Soviet supervision. By means of a liaison from the Soviets' Second Department (for Intelligence) under the General Chief of Staff (GRU), it maintained regular contact with military intelligence in setting the direction of policy, while Hungarian military intelligence was obligated to hand over all information it acquired. In the division of labour among the military secret services of the Bloc, the Hungarian intelligence division excelled in jamming. On the history of the organisation of MNVK-2 cf. Okváth 2018. On the operation of military intelligence, cf. Magyar 2008

12 ÁBTL 3.1.5. O-12344/1 p. 29 Recommendation to open a personal dossier, 25 February 1960

13 It is safe to assume that the alias was inspired by the great figure of German Romantic literature, E. T. A. Hoffmann.

unanimously claimed to have evidence that Hoffmann was an imperialist spy, seemed to support the decision.[14] The services above had one more thing in common, all of them made an attempt to recruit Hoffmann with little or no success. MNVK-2 did not hide the fact that it, too, tried to have Hoffmann collaborate with it from 1955 onwards, and had even received reports from him from 1957,[15] but relations were broken off following a warning from the Soviets that he was working for the British, which was accepted as proven. Over the next few years, thousands of pages of files, surveillance reports and analysis were written about Hoffmann's activities, as an almost inextricable web of connections unfolded before the eyes of the detectives doing the operational work it seemed they could do nothing about: 'Fabulous' was in close contact with persons in Hungary, most of whom occupied protected positions within the party state hierarchy.

The silver thread running through Emil Hoffman's thinking, which consistently explains every stage of a life packed with adventurous turns in abundance, was his heightened enmity for America. Hoffman was born in 1911, so the lost war was a defining childhood experience, and his grudge against the winners led him to the national socialists.[16] He became a member of Hitler's party and joined the Sturmabteilung (SA) in 1933. In 1939, he was hired as a journalist by the Propaganda Ministry headed by Joseph Goebbels,[17] but he previously worked in Bucharest for two years for an industrialist of German origin,[18] so he was not navigating uncharted waters when he was seconded on a foreign affairs mission to the German Embassy in Bucharest as press attaché from 1940 to 1942. During this period, Hoffmann had very close relations with

14 ÁBTL 3.1.5. O-12344/5 p. 17 Executive report, 4 March 1963

15 ÁBTL 3.1.5 O-12344/1 p. 118 Executive report based on MNVK-2 documents, 17 March 1960

16 To present Hoffman's career, I consulted a study by Douglas Selvage he prepared primarily by processing Hoffman's writings and documents created by the Stasi. Selvage 2014

17 Joseph Goebbels (1897–1945) was a politician renowned for being notoriously anti-Semitic and served as propaganda minister for Hitler's Germany from 1933 to 1945. He killed himself on the day after Hitler committed suicide.

18 ÁBTL 3.1.5 O-12344/2 p. 75 Note, 11 February 1961

Ion Antonescu[19] and is said to have worked as an advisor to him. His years in Bucharest seem to be important in terms of his collaboration with the secret services, as information received by Hungarian counterintelligence from their Soviet counterpart suggested that the industrialist employing Hoffmann in Bucharest in the late 1930s was none other than Ernst Kroner, an undercover agent of the German intelligence agency who was probably assigned Hoffmann's secret service training.[20] As a press attaché, Hoffmann's main task was to gather information for the Reich. At the time, he worked for German intelligence in close cooperation with Würzinger Willibald, the German press attaché in Sofia.[21] According to the information of the East German Ministry for State Security (Ministerium für Staatssicherheit, Stasi), Willibald was the resident officer of Hitler's secret service in the Balkans[22] during the war, although this could not be proven after 1945, so he escaped trial.

By his own admission, Hoffmann was beginning to doubt the war in around 1942 and, with help from his friend Carl Marcus, he contacted Kurt Jahnke, a former officer of German intelligence, who was negotiating with the Allies.[23] It is hard to tell how truthful this subsequent claim was, and how much of it was possibly just about exonerating himself, although Hungarian military intelligence arrived at the same conclusion given his activities later in Budapest.

19 Ion Antonescu (1882–1946), Romanian army officer, Romania's pro-German dictator from 1940 to 1944. Pursuant to the Second Vienna Award, neighbouring countries had major territories returned from Romania in 1940, consequently, King Charles II's popularity was dwindling. To avoid an uprising, he suspended the constitution and assigned Antonescu, an ardent supporter of Hitler, to lead the country. Under his leadership, Romania entered the war supporting the Axis powers and became the staunchest ally of the Third Reich. In August 1944, when the Red Army crossed the Romanian border, the powers behind the new sovereign, Michael, had Antonescu arrested, joined forces with the Allies and declared war against Germany. After the war, Antonescu was brought to court and executed as a war criminal.

20 ÁBTL 3.1.5 O-12344/5 p. 19 Executive report, 4 March 1963

21 ÁBTL 3.1.5 O-12344/5 p. 17 Executive report, 4 March 1963

22 A resident officer was an undercover member of the secret service staff. In the given area or country, they would manage and coordinate the persons in the operational network, who maintained contact with the intelligence organisation using them through the resident officer.

23 Selvage 2014, p. 117

Hoffmann moved to Budapest in 1944 to join the Canaris agent network through Kurt Haller as an officer of the Abwehr, the German counterintelligence agency, according to MNVK-2. As the top man of the Abwehr, Admiral Wilhelm Canaris colluded with the Anglo-Saxon powers, so Hitler had him arrested on 23 July 1944 and later executed. Kurt Haller came to Hungary in March 1944 to replace Edmund Veesenmayer and mediated on his behalf between the German Embassy and the Arrow Cross Party.[24] Haller himself was the first to offer Ferenc Szálasi the option of a coup in late August 1944.[25] In Budapest, Hoffman maintained contacts with an officer called Focke, who worked for the British intelligence agency. He was probably the same Albrecht Focke who belonged to the Canaris organisation, with whom Hoffman tried to persuade Haller to rob the cash desk and gold depository of the German Embassy in Budapest to prove his commitment to the Allies, and who promised in return to make sure he would avoid prosecution after the war.[26] Haller chose not to accept the potentially deadly assignment. Hoffmann's relations with the British were also confirmed by an American intelligence report from 1960, according to which he was working simultaneously for both German and British intelligence in Budapest in 1944.[27]

Following something of a cloak-and-dagger visit to Budapest, for which exact dates are unknown, Hoffmann volunteered to join the Schutzstaffel (SS) and was sent to the eastern front as a war correspondent, before escaping some time in 1945. The subsequent three years seem even more obscure than his already patchwork life story. According to Soviet sources, he was held as a prisoner of war by the Americans from July to November 1945, and then moved to the British zone in Germany, joining Marcus, his friend mentioned

24 ÁBTL 3.1.5. O-12344/5 p. 19 Executive report, 4 March 1963

25 Keresztes 2004, p. 15

26 ÁBTL 3.1.5. O-12344/1 p. 118 Executive report, 17 March 1960

27 Central Intelligence Agency (CIA), Freedom of Information Act Electronic Reading Room (FOIA), Special collection of Emil Hoffmann, April 1960 https://www.cia.gov/library/readingroom/docs/HOFFMANN%2C%20EMIL_0085.pdf (Downloaded on: 10 August 2019) CIA FOIA: Central Intelligence Agency, Freedom of Information Act

earlier. In the meantime, Marcus was appointed mayor of the town of Rheydt by the British and was working for British intelligence. Through him, Hoffman also became a member of the Secret Intelligence Service (SIS, or MI6 as it is better known), whether he was aware of this or not. Klaus Barbie, the head of the Gestapo in Lyon, was arrested with his assistance.[28] In 1946, he escaped the town as, by his own admission, the British secret service was pressuring him to collaborate. The British, however, tracked him down not much later, arrested him, and, because he was still unwilling to work for British intelligence, charged him and launched an investigation against him. He was charged with liaising with illegal Nazi circles and Russian spies.[29] The first charge is hard to rebut: the business he did in the coming decades was mainly with his former fellow Nazi officers, and he had already joined a radical nationalist group in Rheydt, whose ultimate goal was to achieve autonomy for Germany and unify the country.[30] The suspicion of colluding with the Soviets is, however, rather curious, and could eventually not be proven, so Hoffman was released. He was held captive by the British from April to December 1947, and, as claimed in his memoirs, was subjected to considerable pressure to cooperate, but he dug his heels in and refused to relent. This is unlikely to be true. Both the Stasi and Soviet intelligence concluded that Hoffmann did work for the British, but they did not find this out until later. According to the information from the Soviet services, Hoffmann reported to them about economic and political life in West Germany between 1949 and 1951, so he was not engaged with them in 1947 when the British accused him of collaborating.[31] In 1951, however, the Soviet Ministry for State Security (MGB) carried out an inspection, which, they claimed, clearly showed that Hoffmann was working for the British.[32] They did not specify whether they regarded him as a double agent or a mole, but they broke off relations. Documents of the American foreign intelligence agency, the Central

28 Selvage 2014, p. 118
29 ÁBTL 3.1.5. O-12344/5 p. 19 Executive report, 4 March 1963
30 Selvage 2014, p. 118
31 ÁBTL 3.1.5. O-12344/5 p. 17 Executive report, 4 March 1963
32 The Soviet secret service and state security agency was called MGB from 1946 to 1953, a predecessor to the KGB, established in 1954.

Intelligence Agency (CIA), also suggest that the British did use Hoffmann during his arrest, and even that the French secret service also contacted him, which seems to be confirmed by his role in the arrest of the Gestapo chief in Lyon. The Americans believe that the British let him go late in 1947 because he made an agreement with them, betraying some of his former contacts.[33] The pivotal idea of his political vision was always a unified and neutral Germany, and he looked on the US as the greatest obstacle hampering unification. In view of this, it may be easier to understand his manoeuvring amidst the merry-go-round of secret services (he worked for nearly every agency but the CIA), which he is likely to have undertaken to ensure not only his own success, but also with the fate of his fatherland in mind. In 1949, Hoffman joined a group called Nauheimer Kreis, founded by Professor Ulrich Noack, which set out to fight for a neutral, demilitarised and unified Germany. It is only natural that Hoffman believed at this stage and also later that the Soviets were the most likely to provide help, even though, as a national socialist, he considered himself to be staunchly anti-communist. Even in the group organised by professor Noack, his task was, according to CIA information, to liaise with Vladimir Semyonov, ambassador of the Soviet Union to the German Democratic Republic (GDR). It is interesting that suspicion of his cooperation also arose with the Czechoslovak state security service,[34] but CIA documents show that Italian intelligence used him for several months as an informant too in 1947.[35]

33 The CIA's declassified documents can be searched online on the CIA website. The sources made available in this way confirm that the American intelligence agency monitored Hoffmann's activities for years. CIA, FOIA, Special collection of Emil Hoffmann, 12 April 1960
https://www.cia.gov/library/readingroom/docs/HOFFMANN%2C%20EMIL_0084.pdf
(Downloaded on: 4 August 2019)

34 Ibid.

35 CIA, FIOA, Special collection of Emil Hoffmann, 8 April 1963
https://www.cia.gov/library/readingroom/docs/HOFFMANN%2C%20EMIL_0100.pdf
(Downloaded on: 10 August 2019)

Atlas GmbH

Hoffman's activities become truly intriguing for us from 1949 onwards when he became engaged in trade between East and West. His movements and evolving social network attracted the attention of the secret services, of course, and he became a person of interest for the CIA at the time. The Americans harboured the suspicion that the Nazi press diplomat turned tradesman was working for the Soviet intelligence agency, and even assumed that he was transporting embargoed products into the Eastern Bloc via Scandinavia and Austria.[36] We know that suspicions of his collaboration with the Soviets were not unfounded, although Hoffman consistently denied this. In his memoirs, he says he feared the CIA and Stasi most at the time, the former because he feared being forced into cooperating, and the latter for placing him under arrest.[37]

He started his foreign trade activities representing a company walking a fine line among the opposing secret services of the Cold War, which hardly comes as a surprise in light of the above. Atlas GmbH was established in 1948 in Munich with American participation according to information held by the MNVK-2, with support from Mr Stone, head of the secret service of the US military administration in Bavaria, to be precise.[38] This agent of the US secret service was none other than Randolph K. Stone,[39] a bureaucrat of the US counterintelligence agency, an officer for American counterintelligence and, according to a Canadian dissertation, the head of the local branch.[40] Atlas was the pioneer among companies with staff from intelligence agencies from both opposing sides operating in the shadows. During the Cold War, foreign trade became the most favoured playing field for the secret

36 Selvage 2014, p. 119
37 Selvage 2014, p. 119
38 ÁBTL 3.1.5. O-12344/7-a p. 88 Executive report, 1 December 1961
39 CIA, FOIA, Special collection of Emil Hoffmann, 9 February 1954 https://www.cia.gov/library/readingroom/docs/HOFFMANN%2C%20EMIL_0047.pdf (Downloaded on: 10 August 2019)
40 Greaves 2013, p. 262

services, as it provided the simplest cover for agents gathering information, so international trade effectively became the secret battlefield of the Cold War. One of the owners of Atlas was a Polish emigrant, Ferdinand Karpik, who, according to military intelligence, liaised with the emigrant Polish government operating in Washington, and, as instructed by Mr Stone, also with a high-ranking officer of NATO's counterintelligence.[41] Karpik's true identity is extremely intriguing, so it appears odd that the Hungarian state security service was not concerned with establishing his identity, and did not dig deeper into the intentions of Atlas, although a company established with help from the American secret service and trying to draw trade between the Eastern Bloc and the western states of Germany into its sphere of influence must definitely be vital from a counterintelligence point of view. There were, of course, grounds for this indifference.

Karpik was arrested by the Germans during WWII, and spent quite some time in concentration camps on the grounds of his role as a leftist activist: He was held both in Buchenwald and in Dachau, where he met his future business partner, the co-owner of Atlas, Wilhelm Ferdinand Westerbarkey.[42] During the war, Westerbarkey served in Spain as a courier for the Abwehr, the German military secret service,[43] and is even said to have been friends with Miklós Horthy Jr.[44] He was moved to a concentration camp because he conducted secret negotiations with the Allies, but was apprehended.[45] American intelligence had already engaged Karpik over these years, and his contact was Mr Stone.[46] Karpik sent

41 ÁBTL 3.1.5 O-12344/13 p. 82 Note from the MNVK-2 archives, 1958

42 CIA, FOIA, Special collection of Helmut Triska, 26 October 1964 https://www.cia.gov/library/readingroom/docs/TRISKA%2C%20HELMUT_0075.pdf (Downloaded on: 5 August 2019)

43 CIA, FOIA, Special collection of Emil Hoffmann, 9 February 1954 https://www.cia.gov/library/readingroom/docs/HOFFMANN%2C%20EMIL_0047.pdf (Downloaded on: 10 August 2019)

44 ÁBTL 3.1.5. O-12344/13 p. 83 Report on Wilhelm Ferdinand Westerbarkey, 30 January 1964

45 ÁBTL 3.1.5. O-12344/13 p. 86 Notes on Westerbarkey by József Lutz, head of HR of Terimpex, 15 February 1964

46 CIA, FOIA, Special collection of Emil Hoffmann, 9 February 1954 https://www.cia.gov/library/readingroom/docs/HOFFMANN%2C%20EMIL_0047.pdf (Downloaded on: 10 August 2019)

reports to the Allied forces on a regular basis up until 1943, when links between them were temporarily suspended. This was clearly when he was captured by the Germans. It was in the camp that he got to know the future Austrian politician, Franz Olah, whose repeated scandals undermined the stability of the Socialist Party of Austria (SPÖ) years later.[47] Olah helped Karpik gain Austrian citizenship, which in return secured the successful businessman's financial support for his political battles. In the first half of the 1960s, Karpik purchased a 50 percent share in the *Neue Kronen Zeitung* on behalf of Franz Olah, putting the most popular daily in Austria under the influence of the socialist politician.[48] Karpik was therefore known as a major financier in European economic and political life in the 1950s and 1960s. At the base of his operations was Atlas, which was established with help from the American secret service. The companies Donau Handel and Frigaliment were established in a similar arrangement and the same ownership, more or less at the same time as Atlas; the goal of all three businesses was to monopolise trade between the Eastern Bloc and Germany. The enterprises achieved this within a few years, Karpik almost exclusively controlled meat trading between the entire Soviet Bloc and West Germany by the early 1950s. The other companies owned by the Polish emigrant also did business with a wide range of products from food to steelware.[49] Karpik's good relationship with the trade companies of socialist countries and his frequent trips through the Iron Curtain naturally gave rise to the suspicion that he was collaborating

47 Franz Olah was a member of SPÖ's executive committee and worked as Austria's Minister of the Interior in 1963 and 1964. Hoping that he could even become chancellor if there were a Socialist-Freedom Party coalition, he funded both the Freedom Party and the Neue Kronen Zeitung. After his suspicious financial transactions were discovered, he resigned from his post as minister of the Interior, and the SPÖ revoked his membership. As a senior member of the trade union, he had solid social support, and therefore did not wish to leave politics, instead founding the Party of Democratic Progress instead, whose populist messages with slightly anti-Semitic undertones did not suffice to reach the parliamentary threshold, but drew enough votes away from SPÖ to force the party into opposition. Petritsch 2014, p 130–131

48 Rathkolb 2014, p. 150

49 CIA, FOIA, Special collection of Helmut Triska, 26 October 1964 https://www.cia.gov/library/readingroom/docs/TRISKA%2C%20HELMUT_0075.pdf (Downloaded on: 5 August 2019)

with secret services in the East. According to CIA information, he was the key figure of the Bloc's illegal financial transactions in the West as the contact of the Urząd Bezpieczeństwa (UB), the Polish state security agency.[50] The received information, though not confirmed, that one of Atlas' sister companies, Donau Handel, was engaged in large-scale illegal arms trafficking seemed to underpin that assumption as this would have been impossible without a foothold in the secret services.[51] The CIA's final conclusion on Karpik was that he must surely have been in contact with the Polish state security agency, the question for them was only in what form and to what extent he cooperated. Ferdinand Karpik's activities in the first years of the unfolding Cold War were fascinating, since he participated in the Polish resistance movement with support from both great powers, who temporarily acted as allies. We know that he was arrested as a Communist by the Nazi authorities, which means he already had a close relationship with the Polish Communist Party, and therefore indirectly with the Soviets, at the time, while he regularly sent reports to the military intelligence agency of the USA. We also know that, as an emigrant right after the war, he established three companies specialising in trade between East and West, and it was the exact same two great powers that stood behind him, only they were enemies by that time. Atlas was granted a monopoly on the export of Polish meat to the West, the aim of which was to stabilise the finances of the Polish Communist Party. Karpik paid the communists commissions on the deliveries, and through this, as well as with the black-market trade of pricier electronic products such as watches, he was able to top up the Party's coffers enough to fund the seizure of power and eliminate the opposition.[52] This effectively means the American authorities directly contributed to the sovietisation of Poland through the operations of Atlas.

The Soviet Union's policies to incite western societies were already successful between the two wars, let us just think of the contamination of the counterpart intelligentsia with leftist ideas, and the operation of Atlas clearly shows how

50 Ibid.

51 Ibid.

52 CIA, FOIA, Special collection of Emil Hoffmann, 9 February 1954 https://www.cia.gov/library/readingroom/docs/HOFFMANN%2C%20EMIL_0047.pdf (Downloaded on: 10 August 2019)

consistently the Bolshevik power was preparing to economically infiltrate capitalist countries once the war was over. The company had excellent relations with Soviet economic players. Reports by the Russian News Agency TASS show that Westerbarkey, as the Atlas co-owner, was invited to an international economic meeting in Moscow in April 1952.[53] It is not so much the Soviet background that is interesting in the operation of Atlas, as it was aligned with the policy represented by Stalin after WWII. The leader of the Communist superpower was aiming to cooperate with the Western powers having already stated a month after Churchill's 1946 speech in Fulton that another world war was not to be expected over the coming 20 to 30 years.[54] Later on, we will see that the Soviet zone was not particularly averse to economic cooperation even after the Marshall Plan was announced. Cooperation was frozen only according to official propaganda. Further research is necessary to understand the behaviour of the western party, since in addition to the economic interests of the big firms, which is easy enough to understand, the secret service of the United States participated in efforts to improve economic cooperation. The military secret service represented by Stone supported the establishment of Atlas, and the intention of creating channels of penetration partially accounts for this, but not sufficiently, particularly in light of CIA sources: the searchable documents of the American intelligence agency show that its agents were trying to find out about the activities of the company that were against its interests, so they treated the Eastern relations behind the firm as opponents, and yet, they did support its establishment and business activities. It is even safe to say about Atlas that both parties, the Soviets and the Americans knew of each other's presence, in fact they established the company jointly, which puts their cooperation beyond doubt. Does all the above indicate, then, that it was not only Stalin who was trying to cooperate but also the US administration, and that the policy of containment known as the Truman Doctrine was also to be understood as propaganda? This seems rather plausible as the commercial networks taking shape – and soon to be introduced – suggest that ensuring the movement of capital was important for both sides.

53 Szabad Nép, 4 April 1952, p. 5
54 Békés 2019, p.34.

The picture is made more colourful still by the fact that the employees of Karpik's companies were, nearly without exception, former Nazi officers and high-ranking officers in Hitler's administration, who previously occupied posts in the countries that fell into the Soviet occupation zone, and who escaped trial for committing war crimes. They must have obviously offered their services to the Allied Forces; their contacts and knowledge were such a priceless asset to the United States of America against the Soviet Union in the race of the great powers that this superseded any moral or ideological considerations. The best-known collaboration between the CIA and a former member of the Nazi intelligence service was with the organisation operated by Reinhard Gehlen, which recruited its members from local anti-Communist forces in the countries occupied by the Soviets, making it the most useful base of information for the American secret services by the beginning of the Cold War. Gehlen, an exceptionally talented intelligence agent, recognised the moment to switch to the side of the Allied forces and realised with the same sharp intuition that, once the Cold War had started, the most important arenas of intelligence lay in corporate cooperation, financial institutions and export-import companies, in particular. Accordingly, he positioned his own people within these institutions, which also tackled the issue of funding the extensive network, given that these people received a decent salary from their cover employer.[55] Gehlen's people were everywhere in the West German consortia that functioned as Hungary's eminent partners from the 1960s, including Siemens, Klöckner and Mannesman. It is no surprise that Atlas, too, piqued the former Nazi officer's interest. According to the CIA, Gehlen tried to recruit Karpik and Westerbarkey, with the support of the CIA, but at present I have no information about whether he was successful in this or not,[56] although cooperation with US organisations is obvious, since the military secret service was clearly behind Atlas. It is a surprise, though, that the CIA's code name for the Gehlen apparatus, 'Zipper' comes up regularly in documents

55 On Gehlen's organisation see further: Ruffner 2006; Guérin 1970

56 CIA, FOIA, Special collection of Emil Hoffmann, 9 February 1954 https://www.cia.gov/library/readingroom/docs/HOFFMANN%2C%20EMIL_0047.pdf (Downloaded on: 10 August 2019)

relating to Hoffmann. Knowing how extensive Gehlen's network was, and knowing Hoffmann's affinity to secret services, it is not beyond the realms of fantasy that Hoffmann was indeed in contact with the US intelligence service through Gehlen.

It is still not clear whether Atlas worked for Gehlen or not, but the company definitely had a Nazi employee who participated in an operation lead by Gehlen as a CIA agent. A former high-ranking Nazi officer, Helmut Triska was indicated as the company's general partner. Triska was born in 1910 in Austria and attended university in Vienna, where he was a committed supporter of Nazi Germany as a student and worked, according to Czechoslovak intelligence information, for the German secret service. His cover was blown in 1926 and he had to flee the country, to be redirected later to Czech and Hungarian territories.[57] According to his official curriculum vitae, he continued his studies at the university of Munich from 1936 and played a major role in Hungary during the war, but he was a key figure in shaping the ideas of German imperial politics in relation to Hungary even before that period. In 1939, he was moved to the Reich's Ministry of Foreign Affairs, where he was in charge of Central European matters and elaborated the plan of swallowing Hungarian territories with a German minority.[58] Following the Anschluss, Hungary became a direct neighbour of the Third Reich, which greatly restricted the country's room for manoeuvre. Although Hungary proposed the territorial revision of Őrvidék (Burgenland), it soon became clear that this dream would never be realised: In August 1939, Hitler confirmed to Regent Miklós Horthy that the two states had reached their final historical borders.[59] At this stage, however, Helmut Triska's plan to redraw the borders had been hatched to annex Western Hungary to the Reich on the false and presumptive grounds that the area from Bratislava to Szentgotthárd was full of towns and villages inhabited by Germans. Triska's plan would have ripped an area of 1,250 km^2 and a population of 120,000 from the country, an integral

57 ÁBTL 3.1.5. O-12344/13 p. 63 Report on the recruitment of West-German citizen Helmut Triska, 15 October 1963

58 Tóth 2006, p. 195–199 More on the topic cf. Botlik 2013

59 Horthy 1990, p. 215

part of which would have, of course, been the Hungarian city of fidelity, Sopron, and its surrounding area. According to Triska, the referendum in Sopron was tainted with fraud and terror, and the majority German population of the city had been waiting to get the city back ever since.[60] The German victory in the war, expected by the Nazis, failed to materialise, so nothing came of Triska's plans to modify the borders, but the diplomat, who knew the region inside out, remained a central figure in German-Hungarian relations for decades to come. In 1942, he was transferred to the German Embassy in Budapest as cultural attaché. The seemingly harmless position, however, served merely as diplomatic cover for his actual assignment: Triska was the most influential representative of the Reich Main Security Office (RSHA) in Hungary.[61] The RHSA was the top body coordinating the Nazi machine of oppression (including the Gestapo). Triska had probably already made contact during his years in Austria with the future head of the Imperial Security Chief Office, Ernst Kaltenbrunner, who was Heinrich Himmler's intelligence agent in Austria prior to the Anschluss: according to the CIA, Triska was a member of Kaltenbrunner's Austrian network. In late 1944, Triska was moved to Italy and stayed right until the end of the war. He was arrested by the American authorities but managed to escape trial. The CIA's now searchable materials include countless reports on Triska and by Triska, since the Central Intelligence Agency used him as an informant; and the contents of the report show that his targets were primarily Hungary and foreign traders from Hungary. He performed his duties despite not being allowed to enter Hungary after 1945 as he was declared a war criminal precisely because of his activities in Budapest during the war. Yet Triska was able to create an extensive network of connections among the foreign traders delegated to West Germany, mostly to Frankfurt am Main, and among those shaping official Hungarian trade policies; and he skimmed off considerable profits from the trade between Hungary and West Germany through his network over the years, which we will return to later.

60 Tóth 2002, p. 197

61 CIA, FOIA, Special collection of Helmut Triska, 24 November 1953 https://www.cia.gov/library/readingroom/docs/TRISKA%2C%20HELMUT_0049.pdf (Downloaded on: 5 August 2019)

Nazis reloaded

Triska seems to have been instructed by the Americans to forge relations in the Eastern European region, the region he had already developed a profound understanding of before the war, and particularly of Hungary, where he served during the conflict. He could not enter the country and therefore needed an intermediary. 1947 saw the establishment of a retail company, the Commission und Handelsgesellschaft, founded by a grain merchant called Karl Bickenbach.[62] Bickenbach was a trader during the war and even before it, and had close links to the Nazi circles who were trying to influence the persecution of Jewish people based on economic considerations, naturally with their own interests in mind. I am referring to Kurt Becher first and foremost, who arrived in Hungary as Heinrich Himmler's man with the assignment to seize major industrial facilities and to acquire the fortunes of families of Jewish origin for the SS.[63] He used the most refined methods of blackmail, promising better treatment to desperate and vulnerable people to prompt them to hand over their assets. Driven by cold financial interest, Becher arranged the rescue of the wealthiest Jewish families from Hungary with help from Rezső Kasztner. In return, entire industrial complexes were transferred to SS ownership. The train that became known as the Kasztner Train transported families like the Weisses and the Chorins to Switzerland, and even the Hungarian government was shocked to find that the most significant industrial facilities in the country had been seized by the Nazis overnight.[64] Although Becher was a great rival to Adolf Eichmann, who oversaw the deportation of Hungarian Jews, he was

62 ÁBTL 3.2.3. Mt-425/1. 87. Report, no date indicated.

63 Kovács 2014, p. 80

64 Ibid. p. 90-91 The price of the 'train ticket' to life was unaffordable for anyone other than the families of industrial tycoons and bankers, consequently, it brought desperate bitterness to those who did not make it on board. Although Kasztner was acquitted in court after the war, he was murdered in 1957 by Jewish nationalists who were unable to forgive him. More on the topic cf. Mrs Strasser, C. – Bán D. 1999

not guided by humanitarian considerations, but the realization that bourgeois Jews brought in more profits alive than dead.[65] His highly developed sense of business did not let him down after the war, either. He was out of prison as early as 1948 and contacted his old business partners, including Karl Bickenbach. After joining forces, they soon became the exclusive representatives of the Hungarian Agrimpex[66] and Monimpex[67] companies in West Germany.[68] Becher became a successful businessman, the owner of the powerful Oppenheim Bank, whom Becher also saved during the War by appropriating the Oppenheim stud farm and stables on Hitler's orders for arranging protected status for the family in return, played a role in Becher's rise, and even married a close friend of the financier sometime later.[69]

According to state security, during the war Bickenbach sold assets stolen from Hungary in Vienna, in close cooperation with Becher. Bickenbach founded his first business in 1947 in the American Zone in Germany with a man named Bruno Doner, who died soon afterwards to leave Bickenbach with his own company. This entity was in regular business relations with the newly established Hungarian state foreign trade companies from 1948 onwards. Bickenbach primarily had the head of the Hungarian foreign trade office in Frankfurt, István Bródy, to thank for his connections. Although Bródy emigrated in 1949, his successors, as we shall see, nurtured these new economic relations that were to grow steadily in the years to come. While Becher transported mainly paprika and honey to West Germany through Monimpex, Bickenbach became the exclusive representative of Agrimpex. Before long, several companies were distributing their produce through him. Bickenbach pocketed mind-boggling sums in commissions from Hungarian companies, giving him the opportunity

65 See also: Arendt 2000

66 Agrimpex was engaged in the foreign trade of agricultural produce.

67 Monimpex was engaged in the monopoly trade of commodities, mainly of raw tobacco, spirits, brandies and cognacs, sweetened and distilled alcoholic beverages, rum, arrack, fruit brandy, food grace vinegar, beer, grapevine must, wine, champagne, yeast, all kinds of tobacco products, grape marc, all varieties of rock salt and food-grade salt, flint, nicotine and saccharine products.

68 Máthé 2014, p. 61–62

69 ÁBTL 3.2.3. Mt-425/1. 90. Report, no date indicated.

to open offices in Hamburg and Bonn, in addition to the one in Frankfurt.[70] Given that he worked together with Becher and Triska, who represented Atlas and Donau Handel, it seems highly likely that Bickenbach represented West German trade exclusively when you look at things from the Hungarian side, but several companies could also have been involved in the background. Suffice to say that the information gathered by state security shows that Bickenbach was so deeply embedded in Hungarian foreign trade that, by the mid-1950s, all major export transactions to West Germany passed through his hands, and Hungarian companies automatically paid him a commission without a written agreement even when the given transaction was concluded by Hungarian foreign traders who travelled to West Germany themselves.[71] Supporting Bickenbach was actually not uncommon: paying commissions to trade intermediaries was an established practice of illegal party fundraising invented by the Soviets, and the system was utilised by the leading players in Hungarian foreign trade for their own opulence. So very much so that staggering amounts had landed in secret Swiss and Lichtenstein bank accounts by the 1970s. The intermediary would channel some of the commission paid generously from the state company's budget back to the account of the corporate employee granting him preference, so a secondary corruption network that skimmed a great deal off the profits of Hungarian foreign trade was built on top of the system of commissions designed and operated on ideological and political grounds.[72] The reason Bickenbach's person merits particular attention is that it is in him and the former Nazi officers working in the background that we find the starting point of the network that fundamentally shaped economic relations between Hungary and West Germany right until the change of political system.

Bickenbach became involved in the businesses, transactions and credit deals of industrial companies as well as in re-export agreements, which netted him the foreign-exchange equivalent of 1,216,400 forints and 1,327,000 forints from ten Hungarian foreign trade companies in commission fees in 1956 and 1957

70 ÁBTL 3.1.5. O-12344/7 p. 43 Executive report, 1 June 1960
71 Ibid.
72 For more details, cf. Borvendég 2017; Borvendég 2018

respectively.[73] These figures come truly as a shock when you remember that the revolution caused Bickenbach serious damage, as the majority of the deals made before October 1956 fell through, so the German businessman needed to borrow significant money (this indicates he was planning to cash in far more in commissions!). The circles managing the country's finances, however, had a great interest in maintaining Bickenbach's network, which is evidenced by the fact that his Hungarian partners bailed him out. The National Bank of Hungary (*Magyar Nemzeti Bank, MNB*) opened a bank account with the German bank that also held Bickenbach's account, where they would hold a considerable sum to fund the trader's commissions. Since the new Hungarian leadership was focusing on stabilising the new power structure after October 1956, and the nation's resistance could manifest itself only in announcing strikes, while a great number of those involved in foreign trade also emigrated to Western countries,[74] the economy temporarily lost steam and trade volumes contracted. To cushion the blow, the German bank holding the accounts debited the amount of the lost commission to the bank account of the Magyar Nemzeti Bank without the consent thereof.[75] Although this was a highly unusual and also illegal procedure, the protests of the MNB and the foreign trade companies against the unauthorised transaction were in vain. The story as it stands does raise doubt in the reader, but another source confirms its veracity. János Fekete, the deputy director of the FX Division at the MNB, then an agent of state security known as the 'Editor', explained in a report that Bickenbach ended up with a debt of 300,000 deutschmarks following the 'events in October' at the bank holding his accounts, while the Hungarian Foreign Trade Bank (MKB)[76] had double this amount at the time, so the sum in question was

73 ÁBTL 3.1.5. O-12344/7 p. 43 Executive report, 1 June 1960

74 From the outbreak of the revolution until the summer of 1957, a total of 45 persons emigrated from trade offices abroad, with the Frankfurt office being extremely 'impacted' by 'dissidents'. Budapest Capital Archives (BFL) XXXV-10-c-1957-186 p. 104 Report to the Party Committee of District V on the cadres of some major ministries, 6 July 1957.

75 ÁBTL 3.1.5. O-12344/7 p. 44 Executive report, 1 June 1960

76 Mentioning the MKB was only seemingly in contradiction with the fact that it is the MNB account that was mentioned in another report. In 1957, the MKB was still operating in strong subordination to the MNB. The Hungarian Foreign Trade Bank was established

debited from the MKB account in payment of Bickenbach's debt.[77] Going on, Fekete also explained that Bickenbach could only be saved from bankruptcy if the commissions he would certainly earn in future were paid to him as advances. This "would be justified only if some extraordinary consideration necessitated saving the Bickenbach firm, known everywhere in the German markets as, shall we say, an advocate of the Hungarian cause, if it were of any interest to save the company from going bankrupt," Fekete goes on.[78] Although the 'Editor' went on in the report to say that this arrangement was rejected by the MNB, in the end, Bickenbach was still paid 100,000 deutschmarks followed by another 150,000 marks as advances on his commission fees.[79] Quoting János Fekete: it was of interest to save the company from going bankrupt. Hungarian intelligence reckoned that the decision was reckless, as word spread quickly in trade and financial circles that the Hungarian state lent significant sums for an umpteenth time to Bickenbach, whom they had already bailed out in 1953 and 1954, although it was well-known that Hungary possessed a modest FX reserve, needed loans herself on a regular basis, and that she kept looking for loans everywhere.[80] At that moment, Hungarian generosity was particularly remarkable, as national income dropped by 11 percent in 1956, and there was still no production at heavy industry companies even in December.[81] The country was pushed to its solvency limits, and the Ministry for Financial Affairs was about to announce a moratorium for creditors, that is, it wanted to suspend the payment of the instalments due.[82] At the same time, however, it was also obvious that Hungarian solvency greatly depended on foreign trade, helping out Bickenbach served the purpose of preventing foreign trade companies from losing their markets in West Germany; and doing so probably had a calming

in 1950 precisely to finance foreign trade transactions, but it was not until the late 1960s under István Salusinszky that the bank achieved some relative independence to carry out its duties.

77 ÁBTL 3.1.2. M-14967 p. 39 Report, 31 May 1957
78 Ibid. p. 39–40
79 ÁBTL 3.1.5. O-12344/7 p. 44 Executive report, 1 June 1960
80 ÁBTL 3.1.5. O-12344/7 p. 49 Executive report, 1 June 1960
81 Mong 2012, p. 55
82 Ibid. p. 53

effect on creditors too, sending the message "we are solvent, nice and quiet, we could just as well reschedule repayments, as everything will soon be back to normal, we are in control". Financing Bickenbach, however, was frowned upon even by circles that were also key economic partners to Hungary, so the story had to be communicated particularly carefully to them. One such rival was Gerhard Todenhöfer.

Gerhard Todenhöfer also started his career as a national socialist party functionary and his extremely radical views made him stand out among his fellow party members. He was the leader of the local youth organisation at Marburg University, which shot him to a senior office in the Ministry for Foreign Affairs at a young age: Todenhöfer was a government councillor liaising between Joachim von Ribbentrop and Goebbels.[83] During the war, he was briefly transferred to the consulate in Finland to serve on the front as a political officer to field marshal Ferdinand Schörner, later convicted as a war criminal. After 1945, Todenhöfer rightly feared being brought to trial, which he escaped in the end, even though he was the deputy head of the department in charge of Jewish matters while he was in the service of the Ministry for Foreign Affairs.[84] He had his high-level connections to thank for his escape, and his well-wishers even made sure he was not heard as a witness as he was afraid of being unable to escape trial.[85] In his remaining years, he chose the business world, which was, however, closely entwined with politics, as he was smoothing the way from the shadows for his close friend, the future West German chancellor Kurt Georg Kiesinger. Their cooperation was, of course, mutual. Kiesinger could achieve success amongst the political elite, like saving Todenhöfer from being brought to court for his Nazi past, while Todenhöfer had extensive financial and economic connections. It was due to him that Kiesinger had outstandingly close relations with the prominent players of the Hungarian economy, but more on that later. Todenhöfer became involved in foreign trade after the war, building relations with Hungarian companies.

83 ÁBTL 3.1.5. O-12344/12 270/41 Report by an MNVK-2 agent, 3 August 1957
84 https://de.wikipedia.org/wiki/Gerhard_Todenh%C3%B6fer
85 ÁBTL 3.1.5. O-12344/13 From MNVK-2 documents, 1958

Besides Becher, he was Monimpex's most important partner and oversaw half of Hungary's honey exports to West Germany, but he was also a contractual partner to both[86] Terimpex[87] and Hungarifrucht.[88] Bickenbach's near monopoly on Hungarian exports to West Germany obviously clashed with the interests of Todenhöfer, who objected to this during a diplomatic meeting.[89] János Nyerges, head of division at the Ministry for Foreign Trade (KKM) cannot have been indifferent to Todenhöfer's opinion, since Todenhöfer had good relations with members of the German government through Kiesinger, who, at the time, was chairman of the Foreign Affairs Committee of the lower chamber of the German Federal Republic parliament. Making a Hungarian party leadership struggling with legitimacy problems agreeable to western powers was a pivotal issue in the months after the revolution, and Kiesinger and Todenhöfer already voiced their concerns over the news about the retributions in the spring of 1957. The declaration of martial law unsettled the public in the West, so they attempted to put pressure on their Hungarian negotiating partners that "such rulings were unnecessary, and even if such a ruling were to be handed down, it would be unnecessary to make it public."[90] Those shaping Hungarian trade policy had quite some manoeuvring to do to ease the moral concerns of the other party, but truth be told, the German delegation showed strong willingness to accept this window-dressing. Their political interests connected them: the Hungarian party hoped Kiesinger would be in line for an important government position in the near future, giving them a politician among the top decision-makers of West Germany who would take Hungarian economic interests into account, while Kiesinger was happy to show off even a modicum of foreign policy success because his support against Adenauer was not strong enough to see his

86 ÁBTL 3.1.5. O-12344/7-a p. 85 Executive report, 1 December 1961

87 Terimpex was engaged mainly in the trade of livestock and meat products, but the distribution of certain plant-based products was also among its activities upon its foundation, although these areas were later taken over by other companies.

88 Hungarofruct was established after 1956, taking over the monopoly on the distribution of fresh fruits and vegetables from Terimpex.

89 ÁBTL 3.1.2. M-25447/1 p. 104 Note by János Nyerges about his trip to Germany, not dated.

90 ÁBTL 3.1.2. M-25447/1 p. 53–54 Report, 19 April 1957

plans for the future secured. Their cooperation proved partially successful, as will be revealed later.

Bickenbach received funding again from the Hungarian state in 1957, but the idea that they should get rid of him and replace him with Triska was already being raised at the time, although the latter was still a war criminal in Hungary, so he could not enter the country.[91] In spite of all that, the business with Bickenbach came to an end, and there is barely any mention of his name in the various documents drafted in the second half of the 1950s.[92] So who replaced him? No one was able to secure a monopoly in certain businesses in the way Bickenbach had done. Emil Hoffman and his business partner, Gustav Meissner, however, were frequent visitors to the Kádár-era Hungary, and, up until the mid-1960s it was through them that the Hungarian foreign trade elite was trying to find its way to the management of the key industrial companies.

Meissner, too, started his career as a zealous Nazi. Having graduated as a journalist, he was a propagandist in Hitler's Germany, following the occupation of Denmark he served as a press attaché at the German Embassy in Copenhagen, but he also served on the eastern front. In 1944, he was mentioned as Denmark's most dangerous man, who was the 'eyes and ears' of German intelligence in the small flatland country.[93] The German security service, the SiPo (reorganised as a unit under RSHA after the outbreak of the war), and German intelligence and

91 ÁBTL 3.1.5. O-12344/13 p. 148 Report, 17 October 1963

92 It is interesting that a report from 1984 says that the West German authorities arrested Richard Müller and Harald Bickenbach for violating the foreign trade act. Richard Müller was the Eastern Bloc's biggest importer of embargoed goods from the 1970s onwards, he was able to obtain most sensitive and modern technologies for the Soviets, all of which were delivered to Moscow via Hungary, through Hungarian companies. (Cf. Borvendég 2017, p. 95-98) The report mentioned says that the two suspects transported equipment to the Soviet Union on behalf of Technoimpex and were caught in the process. ÁBTL 2.7.1. Daily Operational Information Report (NOIJ) 1984-III/II-68 6 April 1984 Although having identical names is not evidence, per se, but it is not beyond the bounds of possibility that Karl Bickenbach's company was taken over by his son, who worked in close cooperation with the Hungarian secret services even in the 1980s.

93 CIA, FOIA, Special collection of Gustav Meissner, 12 April 1944 https://www.cia.gov/library/readingroom/docs/MEISSNER%2C%20GUSTAV_0004.pdf (Downloaded on: 8 August 2019)

American intelligence knew him to be a member of the SD.[94] Despite all of this, he managed to escape trial after the War: a CIA report suggests he was acquitted of the charge of having been a Nazi criminal,[95] although, according to Hungarian state security, the British arrested him and he was interned until 1947.[96]

The road to the Stasi

Hoffman started work representing Atlas in the late 1940s, and he took over as the head of the Berlin branch in 1951.[97] He lived in Berlin until 1953, but the CIA was trailing him, his telephones were tapped and they tried to hinder his movements between the two zones of the city, which made him leave the former imperial capital and move close to Bonn. He had extremely good relations in East Berlin, with access even to the Soviet Embassy, while appearing as a journalist and trader at a wide range of companies and offices. None of the secret services were able to map his network accurately, but we do know that he made contacts in the highest political and economic circles, where he used his tremendous talent to pick up dropped morsels of information and use them to his advantage. Until 1952, he often travelled to the countries of the Eastern Bloc, visiting the acquaintances he had made during the war to 'do business' with the information gathered as a slick professional. Most of the time, it was not secret information he obtained, instead he picked up sensitive and undisclosed information in private conversations. Being the shrewd observer

94 CIA, FOIA, Special collection of Gustav Meissner, no date. https://www.cia.gov/library/readingroom/docs/MEISSNER%2C%20GUSTAV_0003.pdf (Downloaded on: 8 August 2019)

95 CIA, FOIA, Special collection of Gustav Meissner, 11 January 1965 https://www.cia.gov/library/readingroom/docs/MEISSNER%2C%20HANS%20OTTO_0024.pdf (Downloaded on: 8 August 2019)

96 ÁBTL 3.1.5. O-12344/5 p. 119 Report by 'Reményi', 10 December 1962

97 CIA, FOIA, Special collection of Emil Hoffmann, 12 April 1960 https://www.cia.gov/library/readingroom/docs/HOFFMANN%2C%20EMIL_0084.pdf (Downloaded on: 4 August 2019)

he was, Hoffmann was able to draw conclusions that made it look as if he had thorough insight into the most secret data of socialist economies kept under lock and key. Hoffman had ingenious ways to make the most of this knowledge: he always made sure he had some news to feed to the secret services he was in contact with, whether it was the British, the Soviets or another service in the Bloc. The Americans watched his movements suspiciously. Given that he refused to cooperate with them, they attempted to hamper his activities. In 1952, his passport was withdrawn, which prompted him to move out of Berlin, even though the doors to the embassies of the socialist countries in the Eastern Bloc were open to him. The withdrawal of his passport hit him hard, since his livelihood depended on it, but his old fellow officer, Helmut Triska, helped him by convincing his American contacts to return Hoffman's passport to him.[98] In Hoffmann's eyes, this was an unforgivable sin that proved Triska worked for the CIA, so he terminated their relationship even though he did accept his returned passport. This was obviously one reason why his ties with Atlas loosened,[99] and he large managed his own businesses after 1954. He had relations with Swiss and Lichtenstein companies, travelled to China and India, and lobbied at the Romanian Embassy in Vienna for the establishment of a West German trading office in Bucharest.[100]

From 1956, information on Hoffmann became hard to come by. His friends in West German government circles, Kiesinger and his associates, convinced the CIA to abandon his close surveillance, his telephone was no longer tapped and his mail was also left unchecked.[101] By the sixties, the secret services had lost interest in him, and, as we have seen, the Soviet and the Hungarian military intelligence service also ended its relations with Hoffmann, at least according to the information they passed on to the Ministry of the Interior. In actual fact, the committed sources of MNVK-2 did continue to do business with him. In

98 ÁBTL 3.1.5. O-12344/13 p. 64 Report, 15 October 1963
99 CIA, FOIA, Special collection of Emil Hoffmann, 12 April 1960 https://www.cia.gov/library/readingroom/docs/HOFFMANN%2C%20EMIL_0084.pdf (Downloaded on: 4 August 2019)
100 Ibid.
101 Selvage 2014, p. 120–121

the CIA's researchable documents, mention is made of Hoffmann travelling to Hungary in 1956, but there is nothing more to discover about his activities here, and, based on Selvage's study, it seems that the Stasi did not pay much attention to the businessman's visits to Budapest, either. In the subsequent years, Emil Hoffman, or 'Fabulous', as counterintelligence called him, became a frequent visitor to Hungarian foreign trade companies, regularly dropping the hint during private conversations that Hungary was the only country in the Eastern Bloc that was civilised enough to strike significant trade deals with. The real story behind the scenes, however, was that the rising Hungarian foreign trade lobby found in Hoffman, for the time being, the person to open up doors to highly capitalised West German companies using cutting-edge technologies. Hoffmann was once again a key figure in a familiar business world bustling with spies and was able to boost his businesses and gain financial support from the Hungarian government to start his weekly business magazine. It was not a bad move: every western journalist who presented the Hungarian party leadership, embarking on consolidation, in a favourable light was essential to Kádár-era politics. Cooperation, therefore, seemed to be a mutually beneficial business, and, from 1957 to 1964, Hoffmann was a regular guest of Hungarian export-import companies and some prominent individuals involved in foreign trade administration. The fact that Hoffmann's visits to Hungary started just when the CIA suspended his surveillance is probably no coincidence, as Kiesinger strongly supported the members of the Hungarian foreign trade elite, and, by saving Hoffmann from the CIA's grip, Kiesinger was actually helping his Hungarian friends become more oriented to the West.

Those few years of intense presence in Hungary were probably Hoffmann's swan song at the end of the adventurous symphony that was his life. He moved back to Vienna in 1964, and after his Hungarian contacts also put him in a corner, he travelled less and less to the other side of the Iron Curtain. A few years later, he ventured into starting yet another magazine, blaming the leadership of the Bavarian Christian Social Union (CSU) when it failed.[102]

102 Selvage 2014, p. 127

He felt his room for manoeuvre was stymied, and that he was forced into retirement. He took offence at being side-lined and made once last attempt to return to the world he knew, to the thrilling universe of the secret services. In 1976, he gave in to the Stasi and became a paid agent.[103] It was his task to write smear articles on Radio Free Europe (RFE), in effect, the East German state security service expected him to discredit RFE. Hoffmann worked for the Stasi for years and barely left an official trace. Decades of experience in the world of secret agents made him shrewd, and he knew it was not a good idea to leave a paper trail, so his name was only mentioned in a 1981 catalogue as an influencing agent.[104] Over these years, Hoffmann worked not only for the Stasi, but also for the International Federation of Journalists (IFJ), which was controlled by the Soviet secret service, the KGB.[105] The IFJ operated as a front organisation for Communist International, and the National Federation of Hungarian Journalists (MÚOSZ) was one of the most important cogs in the wheel. Hungarian journalists were assigned the task of building relations with western publicists and making them receptive to socialist ideas, so it is no real surprise that Hoffmann's first business trip to Hungary took place in 1956 at the invitation of MÚOSZ. Hoffmann set about starting a number of magazines in the early 1960s, painting a very positive picture of János Kádár and the 'goulash communism' that was taking shape. There is no proof that he did so at the request of the IFJ, but he published articles in their propaganda magazine, the Democratic Journalist, on a regular basis in the seventies. He even helped the federation with its illegal financial transactions: there is proof of the transfer of a large sum of money, which, according to the Stasi, came from money laundering.[106] The IFJ pursued primarily propaganda activities, but became involved with the underworld of the underground economy through its mafia-like operation. After Czechoslovakia's Velvet Revolution, shocking facts emerged about the journalist federation's illegal arms trafficking and

103 Ibid.
104 Ibid.
105 Cf. Borvendég 2015
106 Selvage 2014, p. 127

drugs trade, money laundering and other illegal businesses, which provided him with an inconceivably high income. Operating an underground network ensured funding not only for the IFJ's influencing activities, they also added extra weight to the written word by setting up military groups: dirty money also paid for terrorist training centres.[107] In light of all this, it is hardly surprising that the money that ended up in Hoffmann's hands raised the suspicion of money laundering, since his experience as a former officer of the Nazi intelligence services, foreign trader and secret agent predestined him to be used for more than his journalistic skills.

Hoffmann and his associates' unrealistically adventurous comings and goings in the world of spies shows a side to the Cold War that paints a more subtle picture than the simplistic interpretation of the fight between good and evil both in terms of Nazism and communism. 'Fabulous' and his business partners remained committed supporters of the Third Reich right until the end of the War, but after the Reich's collapse they were able to take advantage of the changing winds, and offered their services in the struggle against the Soviet Union. The world was torn in two, former allies were turned into enemies, at least in the propaganda, while former enemies were granted absolution for their sins in return for fighting against communism, the new demon. Holding war criminals to account meant little more than a few symbolic rulings, while the majority of top-level politicians and officers survived the end of the war unscathed to seamlessly integrate into the new world. The two areas where they tried to make inroads were the economy, particularly foreign trade, and the media. The Soviet Union, however, surpassed the cynical behaviour of the West by far: thousands were brought before the People's Court in the countries that came under Soviet occupation under the pretext of fighting fascism, but instead of identifying and punishing war criminals, the main goal was to eliminate political rivals. While the propaganda was trying to use the fight against Nazism and fascism to legitimise leftist parties seizing power, in reality they were collaborating with the representatives of the ideology declared to be the

107 Pehe 1990

worst enemy, whose nexuses were used to build the economic background to the Soviet Bloc. Business deals were made with prominent figures of the Third Reich on one side, and often people who had been personally persecuted on the other not long previously. There is no friendship in business, or so the saying goes, but it seems there are no enemies, either. The building of the network that took control of Hungarian foreign trade after 1945 perfectly illustrates the contradictions of this bipolar world.

'THE HUNGARIAN MAFIA'

The red octopus

By the end of WWII, it became obvious that the future would be shaped by the two opposing great powers, so European states were reduced to secondary players in the arena of world politics, wedged between the United States of America and the Soviet Union. Germany had defeat in the Second World War behind it, and it seemed it would have to forgo its imperial plans for the time being, as its dominance in Central Europe was questioned. The fate of a country divided into occupation zones became uncertain. The economic ties of Bizone and then Trizone[108] with the eastern parts of the country were kept under strict control, cooperation with the territories in the Soviet occupation zone become more and more restricted. Stuck in the buffer zone between the interests of great powers, Germany's role in the new world order soon became apparent. As a strong ally in Europe, it was critical to the US to have a partner that could serve both as a military and economic base directly along the borders of the Soviet sphere of interest. The Americans also needed to obtain reliable information on the territories occupied by the Soviets, so they supported the revival of commercial ties based on historical traditions. The officers of the former Third Reich, who had local knowledge and relations in these countries, got to play a role in this based on some opportunist considerations, all the more so as it is clear most of them also had intelligence experience. Nor did the Soviet Union

108 At the end of WWII, Germany ended up occupied by four powers. By 1946, relations between the Soviets and western Allies were so severed that economic cooperation between the zones became more and more cumbersome, and the Iron Curtain was brought down. By late 1946, the British and American zones were united economically to create Bizone, and then Trizone in 1948 when the French zone also joined them.

reject the idea of doing business with the representatives of Nazi Germany, who were welcomed with open arms in the countries of the Bloc. The fight against fascism became the ultimate ideology of the left to no avail, as communism and national socialism were actually not that far from each other in terms of their goals and means: the political and economic cooperation between Hitler and Stalin was clear to see from as early as the 1930s.[109] The agreement concluded on the eve of WWII, euphemistically called the Molotov-Ribbentrop Pact, was, however, a deal between Hitler and Stalin, and can be regarded as the height of this relationship. Stalin supplied the Third Reich with the necessary raw materials for the war economy, and even with industrial goods, right until the German attack. It had always been important for Germany and Russia to maintain economic links, and one could argue that geopolitics makes them natural allies as the combination of the developed industrial German territories and the vast Russian land rich in raw materials opens up enormous potential. How the economic ties linking the two countries evolved was always a decisive factor throughout history, since entirely rearranging power relations between them could lead to greater cooperation. Consequently, considerable forces have been moved over the centuries to block this. Although the political scene after WWII seemingly tore the eastern and western parts of Europe apart, rendering cooperation impossible between West Germany and Soviet Russia, in actual fact, this separation was not hermetically sealed even in the iciest years of the Cold War.[110] The negotiations to unite Germany dragged on until the mid-1950s, but none of the great powers were ready to relinquish their interests in the region, so the status quo became a stalemate for decades. The economic interests, however, did remain: the Soviet Union could not circumvent the booming West German industry, and the direct American presence made the latest technology available in West Germany, while the eastern markets, to which they had historical ties, were indispensable to German companies. Geo-political-historical interdependence remained, and it could not even be overridden by the drive to meet the expectations of contemporary politics, the

109 Mitrovits 2020, Koch 2014, p. 133–166

110 For more details, cf. Stent 1981; Pittman 1992; Carter 2012

economic processes between the two countries merely moved into the shadows. The foreign trade offices enjoying diplomatic immunity were the cornerstones of interoperability between the two world orders.

Foreign trade offices played a crucial role from the point of view of the secret services, particularly in cities where the given country happened to have no diplomatic representation. The sovietised system of the socialist countries turned trade into a state monopoly, bringing the companies involved under direct control and management. Recruitment and training of trade representatives by the secret services was easy to undertake, and the selection of those posted abroad, and their vetting for reliability was also carried out centrally. It is only typical that, following the foundation of the Soviet Union, the Bolshevik Party simply had to abandon state dominance in certain areas. Concessions and limited privatisations were authorised to help capital influx, but the powers that be still refused to give up the state monopoly on foreign trade.[111] The explanation is straightforward. On the one hand, the Bolshevik Party pursued the ideal of a communist world revolution from the very beginning, which means they were readying themselves to conquer the world. To do so, they needed an extensive network to spread propaganda and gather information. In other words, to act as a secret service. Foreign trade nexuses and trade offices abroad were cut out for this very purpose. On the other hand, foreign trade went hand in hand with cash flow, the flow of capital, over which the Soviet power certainly did not wish to lose control. In the early 1920s, they came up with a system that became standard in the countries of the Bloc after 1945, and therefore also in Hungary. Trade offices, regarded by the Soviet leadership as a diplomatic mission, were established in various European countries, so they represented interests of the young communist country even before the host country officially acknowledged the existence of the Soviet Union. From the early 1920s, an office with a staff of some 800 operated in Berlin, conducting negotiations with countries in the region other than Germany, including Hungary.[112] Several leaders of the Hungarian Soviet

111 Seres 2006, p. 82
112 Seres 2008, p. 420

Republic found refuge here. Propaganda and secret service/financial activities accounted for the strikingly large number of the office staff. The Russian empire that plunged into civil war was trampled underfoot by a handful of members of the intelligentsia returning from emigration to force their philosophy, entirely alien to the local society, onto the country. This could hardly have been feasible without external financial support. The Bolshevik Party allowed western capital into the country by granting concessions, and permitted big consortia and banking groups to become co-owners in joint ventures founded abroad to fund its businesses and provide loans to build the Soviet system.[113] The capital raised in this way was also enough to underpin the leftist movement in the West and to build the networks of communist sister parties. Stalin's Soviet Union built illegal financial channels, which operated right up until the late 1980s, to fund these parties.

The Hungarian leaders were wary of the Soviets, and, having learnt the lesson from the 133 days of the Hungarian Soviet Republic, attempted to curb the spread of communist propaganda, but they were still unable to sever economic ties completely. After the Treaty of Trianon, the Hungarian government was forced to import raw materials from Russia, oil in particular: between 1921 and 1924, black gold flowed to Hungary nearly exclusively from the oil fields in Grozny.[114] Triggered by the vulnerability caused by the shortage of raw materials and pushed by the industrial-financial lobby, the Hungarian government was forced to establish relationships with the communist power first economically and then also politically, but they made sure only to have as many Soviet 'traders' posted to Budapest as they could keep an eye on. Despite the defiantly anti-communist sentiment of the inter-war period associated with the name of Miklós Horthy, the Hungarian government was not able to eliminate the underground communist network in Hungary. The Hungarian section of Comintern played a significant role in the work of the illegal international communist movement,[115] while the group referred to as

113 Seres 2006, p. 81-83
114 Seres 2008, p. 413
115 For more details, cf. Koch 2014

the 'Hungarian Mafia' was the most extreme of the red octopus organisations in western countries in preparing for the Bolshevik revolution orchestrated directly from Moscow. During their work, they gained experience in transferring black money, and mastered the art of making secret money transfers and concealed money laundering, and every aspect of underground conspiracy, so it is no surprise to find 'experts' of Hungarian origin among the key players in funding internationalism in neutral Switzerland after 1945.

As the world's financial centre, Switzerland played a crucial role in the bloody history of the twentieth century even though, or maybe precisely because, the country managed to ensure neutrality throughout both World Wars. The bankers of the alpine country assisted in the safekeeping of Nazi and communist fortunes alike without so much as batting an eyelid, ensuring the flow of money, and, claiming banking secrecy, providing the opportunity for such amounts of unclear origin to be used even for illegal purposes without consequence. American intelligence, of course, was doing its best to explore the money flow within communist networks, so they were familiar with the Hungarian connections operating in Switzerland.

The CIA mentioned the director of Kelimpex who went by the name of Andreas L. Gal and had a secret bank account held by the Schweizerische Bankgesellschaft in Zurich.[116] Established in 1948, Kelimpex was one of the first state foreign trading companies. It was engaged in the trade of fuels, such as crude oil, different chemicals and, most probably, electronic goods, too. (Some time in 1949, the company Chemolimpex was established as a spin-off of Kelimpex.) According to the CIA, Gál was in charge of purchasing weapons and military technology on behalf of the Hungarian communist leadership, arranging secret weapons deals from his office in Switzerland. The money required to discharge these tasks, a few hundred thousand dollars according to the Americans, was deposited to the secret bank account mentioned, but the report does not say anything about the source of the money. Andreas L.

116 CIA, FOIA, Hungarian Economic Activities in Western Europe, 17 November 1949 https://www.cia.gov/library/readingroom/docs/CIA-RDP82-00457R003600470003-2.pdf (Downloaded on: 16 August 2019)

Gal was probably János Endre Gál, later CEO of the Hungarian Foreign Trade Bank, who negotiated the return of János Fekete from Vienna in November 1956 (Fekete was stranded in the neighbouring capital during the days of the revolution).[117] Gál had been head of division at the Ministry for Foreign Affairs from 1950 onwards, and several instances of financial abuse are linked to his name. These never made it to prosecution and trial, even though they were noted by state security, and Gál's career continued uninterrupted; CIA information suggests that he enjoyed protection because he was doing shady business not on his own but on someone else's behalf. He was reported to have travelled to Czechoslovakia as early as 1945, where he stole 12,000 crowns and 14,000 pengő from a driver. The crime was revealed, and the party committee obligated Gál to return the money, although the pengő had been completely devalued by the time he complied.[118] As a ministry official 'he committed several acts of a sabotage nature',[119] for example, he would delay certain consignments, for which the Hungarian party had to pay considerable sums in damages, or would make certain foreign trade companies pay off claims for liabilities made by foreign companies without the Hungarian party ever acknowledging these as justified. Using this method, he passed on more than 500,000 US dollars to an Argentine company in 1952, but state security was informed more than once that he paid tens of thousands of dollars to western companies on the basis of make-believe claims in damages, so the money required for the secret assignments was sucked out of the Hungarian economy. As the head of the Hungarian trade office in Bern during 1957-58, he had only 10 percent of the Omega watches purchased on behalf of Elektroimpex actually delivered to Hungary, the rest he sold with the help of a Swiss trader in Switzerland and other western countries, bypassing Omega's trade network. This caused damage not only to the Hungarian economy, but also to the watchmaker, which chose to sever ties with Elektroimpex in return. Gál probably engaged in several similar deals to help fund the international

117 Benda 1999, p. 131
118 ÁBTL 3.2.4. K-614, p. 19 Report, 14 May 1960
119 Ibid. p. 20

communist movement, and was appointed, out of gratitude, as head of the Hungarian Foreign Trade Bank in 1960.

The CIA mentions as Gál's right-hand man György Oblath, who resided in Switzerland and represented Ligimpex.[120] György Oblath was a key figure of the foreign trade lobby that later emerged; and although the state security documents on him were destroyed during the revolution, we know for a fact from Hungarian sources that he was helping the political police from the 1950s onwards as a member of the network under the cover name of 'Petneházi'.[121] Later, Oblath was posted abroad several times: he worked as a trade adviser in India and later in Rome as a committed source for military intelligence, a member of MNVK-2; and, from the mid-1970s onwards, he was the CEO of a strategic company, Intercooperation Rt.[122] Intercooperation was in charge of cooperation with Siemens, among others, further information on this is provided in a subsequent chapter. No Hungarian sources survived on Oblath's early secret service activities, at least none can be found among the documents currently researchable, which makes CIA information invaluable. According to American intelligence, Oblath too was in charge of secret purchases in Switzerland in the late 1940s, when he purchased military-grade automotive and radio equipment for the Soviet Bloc.[123]

American intelligence considered Sándor Sebes to be one of the key players in the Hungarian communist activities in Switzerland. He did not participate in the purchases himself, but was named as the man who managed Hungarian financial and banking transactions, purchased foreign currencies, and was in charge of distributing and transporting the sums received in Switzerland from Hungarian deals. He is said to have carried the money in suitcases to the

120 CIA, FOIA, Hungarian Economic Activities in Western Europe, 17 November 1949 https://www.cia.gov/library/readingroom/docs/CIA-RDP82-00457R003600470003-2.pdf (Downloaded on: 16 August 2019)

121 ÁBTL 3.2.1. Bt-463, p. 19 Service request, 1 August 1961

122 For more details, cf. Borvendég 2017

123 CIA, FOIA, Hungarian Economic Activities in Western Europe, 17 November 1949 https://www.cia.gov/library/readingroom/docs/CIA-RDP82-00457R003600470003-2.pdf (Downloaded on: 16 August 2019

communist parties operating in western countries. Sebes knew the international communist networks well, he was young when he joined the Hungarian Party of Communists, which was operating illegally, and was caught several times while carrying out propaganda activities, so he was in and out of Hungarian prisons. In 1936, he fled to Spain to fight on the side of the Republicans in the Civil War as a member of the International Brigades. During the war, he joined the French communists, working as a secretary of the Hungarian party organisation operating in France. He returned home after 1945 and became the head of the Department for Economy of the Hungarian Communist Party (MKP). Apparently, however, he was dealing not only with the affairs of the Hungarian economy, but also used his well-documented international relationships to support communists in western countries. According to the report, it was Sebes who channelled the money intended for the campaign of the Italian Communist Party from Hungarian-owned bank accounts in Switzerland to Italy, but it was also he who arranged funding for the strikes organised by the French communists. According to the CIA, all of this was funded by the profits from business deals made by Hungarian companies, which means that during the time of the three-year economic plan when Hungary was making strenuous efforts to repair the damage inflicted by the war, the party leadership withdrew funding to support Italian and French sister parties. Béla Révai was regarded by the CIA as one of the Hungarian 'businessmen' in Switzerland and was, according to their knowledge, assigned the task of obtaining US dollars and managing this foreign currency. Révai worked in the Mobiliare Verkehrs bank in Zurich, whose owners are said to have been émigrés from Hungary and which specialised in providing funding for the business deals made by Hungarian companies in western countries.[124]

124 Ibid.

The secret man behind the scenes: János Nyerges

The most valuable part of the mentioned report is the statement that the activities of the persons listed were coordinated and supervised by two diplomats in Switzerland, who could provide diplomatic protection to them if need be. The two men were József Száll and János Nyerges.[125]

Száll was one of the most controversial diplomats after 1945, and his career trajectory was incredibly steep.[126] He had already joined the illegal communist movement during the War and worked at the editorial office of *Szabad Nép* for a short while after 1945, but was moved to Bern as an Embassy secretary as early as 1946. In his recollection, his task was to return Hungarian fortunes deposited in Switzerland during the War, which means he could indeed have been a member of the Hungarian communist network operating in Switzerland, which had control over the funds intended for the support of the international workers' movement. Száll's economic activities were noticed not only by American intelligence, the Swiss also considered him to be a Comintern agent. The possibility of expelling him from the country was raised, but in the end, it was decided that there was no need to burden the relationship of the two countries with a diplomatic nuisance like this in the knowledge that his successor would obviously carry on where Száll left off.[127] Cultivating a close friendship with János Nyerges, Száll stayed in Switzerland until 1950. Following his return to Hungary, he was posted abroad a number of times, including to China, Jakarta and Paris, but he became best known when he emigrated together with his family in 1970 after the suspicion was raised that he had committed economic crimes. The American secret service interviewed him at length, and Száll finally

125 Ibid.
126 About József Száll's life cf. Andreides 2019
127 Andreides 2019, p. 35

settled in Italy, where in the 1980s he was implicated in the scandal that erupted regarding the P2 Masonic lodge he was a member of.

From the point of view of this book, János Nyerges was the more intriguing figure of the two men, I would even go as far to say that Nyerges was one of the most important players in the interest group identified as the 'foreign trade lobby'. He is likely to have had relations with Communist International already between the wars, and, though hidden behind the scenes, the enormous informal power he wielded to interfere in Hungary's foreign trade policy remained undiminished after 1945 and throughout the entire socialist period. It was essentially Nyerges who not only shaped and controlled the economic ties with the capitalist West, but was also a decisive player at the negotiating table with the Common Market. From the 1960s, he urged Hungary to open up towards the European Economic Community (EEC), and wanted to coerce western countries to abandon their protectionist policies against Hungary. Nyerges led the negotiations to join the General Agreement on Tariffs and Trade (GATT) along the same lines. Based on the research by Pál Germuska, it is safe to say that, because his expectations were not met, he became an obstacle by the mid-1980s, impeding relations with the Common Market: he believed that only trade agreements complying with GATT were acceptable, and disagreed with the idea that Hungary should make concessions to Brussels.[128]

Information about Nyerges' life before 1945 is rather scarce.[129] He was born at Christmas in 1918, and was orphaned at a very young age: his father fell victim to the White Terror in 1920. Biographical data do not show what function his father had during the Hungarian Soviet Republic that resulted in him being

128 Germuska 2019. Gyula Horn wrote in his memoirs about the role János Nyerges played in the economic negotiations in the late 1980s: "In addition to the Soviets, top Hungarian leaders in charge of external relations, János Nyerges in particular, did everything they could to torpedo the negotiations [i.e. negotiations with the EEC]. Even in the spring of 1988, these 'good people' kept repeating like a mantra that Hungary must foster its relationships with the socialist community." Horn 1991, p. 142–143

129 János Nyerges' personal bequest is held by the Budapest Capital Archives (BFL) under reference number BFL XIV. 43. Unfortunately, I was unable to use these documents to present János Nyerges' life and professional activities because his family did not consent to the research.

killed, but this does not seem to have limited young Nyerges' opportunities. He was raised by his mother and his uncle, graduating from high school in Újpest in 1937 with classmates who included László Kardos, future director of the Györffy Dormitory and founder of the people's dormitory movement. Nyerges started his university studies in Vienna and later moved to Paris to earn a degree in commerce at the École des Hautes Études Commerciales.[130] Over the next few years, he travelled the world as a commercial trainee, but at this stage it is unclear what company or organisation provided him with the funding to do so; the summary of his biography reveals only that he went to South Africa, and was later 'delegated' to Switzerland.[131] This is all rather vaguely put, without any explicit conclusions to be drawn, but the state protection authority later made several mentions of Nyerges' good relations at the companies of the Swiss Communist party,[132] and relied on his expertise to oversee various banking transactions.[133] This seems to support the CIA information that he was in charge of overseeing the finances of international communism, at least the part managed by Hungarians. It is certainly not beyond the imagination that he had already joined some underground organisation between the two wars, which helped him get some global trade experience under his belt. His knowledge and experience made him indispensable after 1945.

According to his autobiography, he returned to Hungary in 1939 and was forced into labour service from 1940. In 1944, he was sent to Bor, from where he escaped; he joined Yugoslav partisans and then the Red Army, participated in the Transdanubian offensive, and was discharged within the territory of Romania in August 1945.[134] Nyerges worked at the Directorate for Foreign Trade from 10 September 1945 and was delegated to Bern in October 1946 (there is a document, though, that says he was already in Switzerland from October 1945 onwards),[135] where he was in charge of organising the local foreign trade

130 ÁBTL 3.2.1 Bt-481/1, p. 27 Report, 9 November 1950
131 ÁBTL 3.2.1 Bt-481/1 p. 14 Report, 3 October 1950
132 ÁBTL 3.2.1 Bt-481/1, p. 91 Negotiations in Switzerland, 11 September 1951
133 ÁBTL 3.2.1 Bt-481/1, p. 68 Report, 18 April 1951
134 ÁBTL 3.2.1 Bt-481/1, p. 9 Autobiography, 11 May 1950
135 ÁBTL 3.2.1 Bt-481/1, p. 130 Report, 28 January 1953

office. At the time, he was carrying out assignments for the Economic Policing Department of Budapest Police Headquarters "on a comrade-to-comrade basis",[136] but this body was before long integrated into the State Protection Authority of the Ministry of the Interior (BMÁVH), so, from the autumn of 1948 onwards, Nyerges performed his duties as a resident officer of state protection. In addition, it was also his job to keep an eye on the business deals concluded by foreign trade companies and to monitor the activities of company representatives abroad. He was primarily assigned to gather economic news, but he was also tasked with obtaining military information: he was supposed to keep an eye on the facilities manufacturing military goods.[137]

Nyerges had an important part to play in the preparation of the MAORT lawsuit: he collected evidence relating to Zoltán Gombosi's illegal business in Switzerland, which eventually brought the mineral oil commissioner down. A social democrat, Gombosi held the post from 1 April 1945 and tried to influence oil production at the oil fields in Zala county to his own and his party's benefit, which ended up in a conflict with the leadership of the Communist Party.[138] Gombosi concluded an oil supply agreement with the Swiss-based Erpag Erdöl Producte AG in 1946, but he unilaterally changed the terms of the agreement without informing the Parties involved, thus misleading both the Swiss company and the Hungarian oil concern.[139] The main problem, however, was that there was no coverage for the contracted oil, because that oil had to be transported to the Soviet Union, Czechoslovakia and Yugoslavia, presumably as compensation.[140] Gombosi was controlling the Hungarian oil industry as a social democrat, so he was in the crosshairs of the Communist Party regardless of whether or not he had committed economic crimes. For the communists systematically sovietising Hungary, conducting the MAORT lawsuit, one in a series of large-scale economic lawsuits, mainly served the purpose of taking over the company, partially in foreign ownership, and of acquiring control

136 ÁBTL 3.2.1 Bt-481/1, p. 3 Information sheet, 28 April 1950
137 ÁBTL 3.2.1 Bt-481/1, p. 6 Note, 25 April 1950
138 Pál 2013
139 Ibid.
140 ÁBTL 3.2.1 Bt-481/1, p. 19 Report, 11 October 1950

over the oil. In the case of Gombosi, however, the lawsuit also helped push rival social democrats to the periphery.[141] As a committed communist, Nyerges assisted in wrapping up the case cooked up by state protection, but he also helped sideline social democrats in other ways. When he was moved to Bern, his superior, the social democrat János Beck refused to assist Nyerges' business games, unconditionally so the Communist Party had no choice but to oust him. According to CIA information, Nyerges did everything he could to ruin Beck, so the commercial attaché had to emigrate in 1948, providing his deputy, Nyerges, with an opportunity to take over the office.[142]

Nyerges was sent home to Hungary in October 1950 at his own request, saying he had been living abroad since he was 18 and wished to serve in his home country.[143] He became head of department, then head of division at the Ministry of Foreign Trade and was put in charge of coordinating economic relationships with western countries. He held a position that was particularly important for state protection, and the leaders of the State Protection Authority (ÁVH) expected him to keep actively cooperating via his liaison officer, Miklós Bauer. Every trade transaction with any relevance to capitalists fell within his remits, every travel report was forwarded to him, and he also supervised offices in the West.[144] His best relations were in Switzerland, of course, where he was also entrusted with maintaining cooperation with the local communist party organisation. Some sort of conspiratorial error was made in terms of funding the party companies of the Swiss left, and Nyerges was sent to Bern to resolve the issue: he should find 'an opportunity to provide better funding to them.'[145]

The establishment of the Hungarian system to support party companies in Switzerland dates back to the years when Nyerges was staying there. The

141 For more on the economic lawsuits, cf. Cseszka 2012; Szörényi 2012; Szörényi 2013; Cserényi-Zsitnyányi 2015

142 CIA, FOIA, Absorption of Power by the Communists in the Hungarian Foreign Service, 1 August 1949 https://www.cia.gov/library/readingroom/docs/CIA-RDP82-00457R003000310005-3.pdf (Downloaded on: 20 August 2019)

143 ÁBTL 3.2.1 Bt-481/1 p. 14 Report, 3 October 1950

144 ÁBTL 3.2.1 Bt-481/1 p. 84 Report, 6 August 1951

145 ÁBTL 3.2.1 Bt-481/1 p. 91 Negotiations in Switzerland, 11 September 1951

commercial company Intra Handels AG was founded by Edgar Woog, leader of the German Communists in Switzerland, and his wife Lydia Woog, in 1946. It was a requirement to use its services whenever a trade deal was made between the Balkans and Western Europe.[146] This kind of intermediary trade was the basis of the indirect funding mechanism of left-wing movements and was built by the Soviets in the years between the two Wars. In the free world, Communist parties also had the opportunity to engage in enterprises to allow them to establish companies that barely pursued any productive activity, but were able to engage as third parties to act as mediators between importers and exporters for a commission, with their fee due to their owner, the Communist Party. The heyday of these businesses came with the Cold War, since the establishment of the Iron Curtain imposed restrictions on relationships of any kind between the two worlds. This made trade controllable through nationalisation, which allowed the involvement of intermediary companies to become mandatory in foreign trade deals. Intra Handels, therefore, specialised in business in the Balkans, while Contrax AC, owned by a communist leader in Basel known as Hans Adam, was also engaged in the same activity.[147] Transmontan AG was among the party companies in Switzerland. It was established with the purpose of making involvement in a Hungarian-Soviet mining company attractive to Western capital.[148] Unfortunately, American intelligence does not explain in detail which mining company this referred to, but this piece of information is definitely intriguing and provides food for thought as it suggests that a company was established in the Alps with the intention of engaging Western capital in the industry parallel to the nationalisation of mines. The mining company mentioned could well have been Maszovol, the Hungarian-Soviet Crude Oil Shareholding Company, which was founded in 1946 to drill oil wells in the Great Plain. Later, Nyerges' reports mention the fact that Switzerland was already involved in Hungarian oil transports in Gombosi's time and this also

146 CIA, FOIA, Hungarian Economic Activities in Western Europe, 17 November 1949 https://www.cia.gov/library/readingroom/docs/CIA-RDP82-00457R003600470003-2.pdf (Downloaded on: 16 August 2019)

147 Ibid.

148 Ibid.

continued thereafter. In 1951, for example, Nyerges had difficult negotiations with the Swiss partners on Hungary's wishes to discontinue the delivery of crude oil products and predominantly export wheat instead.[149] Hungary transported significant volumes of oil to Europe through Maszovol; according to the CIA, around 125,000 tonnes of crude oil were planned to be exported from the Soviet zone in 1948, mainly from Russian and Romanian sources, to the West. The oil was relayed by the Hungarian company, clearly with the intention of generating hard currency for the Soviets.[150]

Switzerland continued to be of immense significance for Hungarian foreign trade as the financial hub provided investors with a favourable legal environment. From the early 1970s, Hungarian legislation opened up the opportunity for Hungarian companies to establish businesses in capitalist countries without any special approval. The subsidiaries founded in this way were keen to set up further enterprises, most of them registered in tax havens and therefore operated as offshore companies. One of the most popular countries to register companies was Switzerland. Some of the companies operating in the alpine country were recurring subjects of various state security reports, which implies they were important foreign trade partners for socialist Hungary. The Lausanne-based company André started appearing in documents as a privileged partner at least from the early 1960s. János Fekete suspected it was highly likely that this economic cooperation was founded on corruption.[151] Although we know little about the owners of André for now, it seems fairly certain that they had close ties to the management of the Hungarian Foreign Trade Bank: the head of the company, Friedrich Schenk, conducted negotiations in the MKB building when he arrived in Hungary. André's privileged position is of interest not only in relation to Hungary, but also to the Western world: "André, a leading company across the world, has been working unobstructed with socialist countries and may also make transit deals following accession to the Common Market. The

149 ÁBTL 3.2.1 Bt-481/1 p. 89 Negotiations in Switzerland, 11 September 1951

150 CIA, FOIA, Hungarian Trade Policies, 13 July 1948 https://www.cia.gov/library/readingroom/docs/CIA-RDP82-00457R001600880005-7.pdf (Downloaded on: 21 August 2019)

151 ÁBTL 3.1.2 M-14967, p. 235. Report, 3 March 1960

high prestige the company enjoys allows unhindered travel here at a time when Swiss authorities are registering businessmen travelling to Hungary and persons using Hungarian aircraft."[152] In all likelihood, André was not the only company to conduct transit deals with Hungarian companies, you can read about the huge significance of re-exports in more detail later, but its name also crops up in relation to the largest fraud of the socialist period. Between 1981 and 1989, the company transported Iranian oil through Mineralkontor, the subsidiary of Mineralimpex in Vienna, such that it made a loss of 10 cents on every dollar. The decades of fraud consumed hundreds of millions of US dollars at the expense of the Hungarian state.[153] The substantial loss suffered on the Hungarian side appeared as profits made by the American partner. These funds were used to bribe the traders arranging the deals, and the party cadres, officials and financial experts who provided the opportunity for the economic crimes to continue undisturbed. State security spotted the anomaly behind the oil transfers and launched an investigation, also looking into money transfers and banking transactions. Although Mineralkontor's financial reports showed that the company was not turning a profit, the profit made by the operation of the Vienna subsidiary was regularly credited to the highly secret account number 1999 held with the MKB. This money would then be transferred to André's bank account at Cantrade Bank in Zurich. When counterintelligence investigated the matter in May 1984, there were four sums deposited in the account of 22 to 25 million dollars each, totalling nearly 100 million US dollars.[154] This is merely a snapshot of the account to which amounts were transferred to André on a regular basis. Unfortunately, we cannot currently even estimate how much the total funds were, and we do not know exactly what role the enterprise in Lausanne played in the Iranian oil business, or when and how the company came into contact with Hungarian foreign trade. Nyerges' recruitment materials include a report in which Miklós Bauer assigned the Ministry of Foreign Trade's

152 ÁBTL 3.1.2. M-19207. 147. Report, 7 July 1962

153 For more details, cf. Borvendég 2017, p. 111–160

154 Borvendég 2017, p. 122–123 At current values, the amount would be around HUF 125 billion.

head of division the task of drawing up a plan for how to set up a company in Switzerland that could delegate a representative to Belgrade or send someone to Yugoslavia on a regular basis under the cover of company business.[155] Two weeks later, Nyerges did submit a hand-written note on how this plan could be implemented. Unfortunately, this document did not survive.[156] The State Protection Authority (ÁVH) clearly wanted to use the company for intelligence purposes to ensure a channel of penetration into the hostile South Slavic state, which means it seems unlikely that state protection was driven by economic considerations. Although it is unclear from the documents whether the plan was actually carried out or not, the report is still important as it shows that the Hungarian secret service was considering establishing a company in Switzerland as early as the early 1950s. The Pénzintézeti Központ (*PK, Financial Institute Centre*) later established a major holding in Bern under the name Centropa AG, which became the gateway for setting up further companies in capitalist countries. We cannot automatically conclude that André was under Hungarian ownership, or that it was specifically established by Hungarian intelligence, but this evidence does show that this possibility cannot be ruled out.

In the 1960s, Nyerges wrote a book about issues relating to trade between East and West, elaborating in detail the damage the Nazi Germans and the forces supporting them inflicted on Hungary by robbing the country of its economic assets: "The country was bleeding from a hundred cuts. Gold, machinery and raw materials were transported to the West in hundreds of wagons. For reconstruction and to get back on its feet, it was indispensable for the nation to have its rightful assets returned. […] Having experimented to no avail to use the returning of the nation's rightful assets for the purposes of political blackmail of the plundered and famished country, the US government […] expelled the Hungarian restitution committee from West Germany on 15 April 1948. […] Following the events of 1948, Hungarian assets continued to be sold off with even fewer restrictions in West Germany to the benefit of American, German

155 ÁBTL 3.2.1 Bt-481/1, p. 128 Report, 4 July 1952
156 ÁBTL 3.2.1 Bt-481/1, p. 139 Report about the meeting, 14 July 1952

and Hungarian fascist accessories."[157] Secret amounts drained from the country and its reconstruction passed through Nyerges' hands in Switzerland. It was under his supervision and control that the trade network, the members of which were in fact former Nazi officers, was created, but the assets stolen from Hungary were sold off not by 'Hungarian fascists' but communist receivers through the very same network during the Soviet occupation after the War.

The fall of Gábor Péter and his associates also caught up with Nyerges in 1953. When Prime Minister Imre Nagy ordered the merger of the ÁVH and the Ministry of the Interior on 17 July 1953,[158] ÁVH's independence came to an end and its leaders were simultaneously brought to court. Péter too was excluded from the network based on the accusation that he had relations with Swiss counterintelligence.[159] He was not, however, kept on the back burner entirely and for long, as the subdivision for counterintelligence in foreign trade of Department V of the Ministry of the Interior continued to maintain relations with him regarding trade matters.[160] In 1955, he was yet again a man of the counterintelligence network, with his tasks including observation and recruitment. During the revolution, Nyerges probably tried to safeguard himself against all eventualities and sought out contacts in the newly organised bodies: he visited his former secondary school classmate, László Kardos, with whom he had previously had no relationship at all. Exercising self-criticism, Nyerges told him that he had re-evaluated a great many things in his head. Reminding him of their old friendship, Nyerges offered his services to Kardos, who was a member of the Revolution Committee of Hungarian Intelligentsia during the revolution.[161] The suddenly re-discovered friendship was, however, rather short-lived: after the failure of the revolution, Nyerges avoided Kardos' company, and his classmate was sentenced to life in prison in 1958. His extremely skilful manoeuvring bore fruit in his career: János Nyerges became the indispensable

157 Nyerges 1962, p 15
158 To find out about the structural changes at the merged Ministry of the Interior in detail cf. Gyarmati – Palasik 2013
159 ÁBTL 3.2.1 Bt-481/1, p. 166 Recommendation to expel, 17 July 1953
160 ÁBTL 3.2.1 Bt-481/1, p. 169 Establishing contact, 6 October 1955
161 ÁBTL 3.2.1 Bt-481/1, p. 225–226. Relationship with László Kardos, 30 December 1965

foreign trade and economic expert to the Kádár regime. He was fluent in six languages and, although he never made it higher up the ladder than the post of head of division, his informal power may have surpassed even that of a minister. From the 1960s on, state security could no longer employ him as an agent, but they could rely on him as a secret colleague or an official contact due to his position in the Ministry,[162] although he still served economic intelligence by evaluating documents for a long time to come.[163] The intelligence service wished to gain information related to political and economic intelligence, but Nyerges is likely to have been rather selective about what he chose to share, as he did not report in detail about his negotiations with Emil Hoffman, or on the business deals he made with the partners he knew from the foreign trade office in Frankfurt. One cannot rule out the possibility he already had close relationships with military intelligence officials and its committed sources, since the foreign traders serving in Frankfurt were MNVK-2 men. At the end of the 1960s, military intelligence did indeed seek out Nyerges to recruit him, but in the absence of researchable documents, the results of these approaches are unknown.[164]

A chink on the peace front: Frankfurt am Main

As the financial centre of the world, Switzerland was indispensable when it came to maintaining and financing economic ties across the Iron Curtain, but we previously learned that the building of trade routes started in West Germany, with a background in the secret service and with help from representatives of Nazi Germany.

162 ÁBTL 3.2.1 Bt-481/2, p. 38 Recommendation, 30 April 1966
163 Germuska 2018, p. 247–248
164 ÁBTL 3.2.1 Bt-481/2, p. 63 Service request, 20 March 1968

Similarly to Russia, Hungary was also a traditional partner of German industry and trade, and her significance demonstrated itself best in her ability to build a bridge between East and West during the Cold War, which became even more apparent after Kádár took power. As a member of the Soviet occupation zone, Hungary effectively became one of the links that enabled the influx of capital and technology to the Bloc even during the iciest years of the Cold War by opening up routes for western companies to reach markets in the East, and ensuring the survival of German-Russian economic cooperation in the bipolar world.

Foreign trade between Hungary and the western occupation zones of Germany took off surprisingly quickly. Hungarian exports practically ceased to exist in 1945-46 as there was no surplus to sell. Any extra that was produced left the country as war reparations. From 1947, the economy gradually returned to normal, and exports resumed, focused mainly on agricultural produce. Our most important economic partner, Germany ranked only 25th on the list of countries in a trade relationship with Hungary in 1947. It is interesting, however, that Germany ranked third two years later, right behind the Soviet Union and Czechoslovakia, in terms of total exports across the country's four zones.[165] Export and import activities between Germany and Hungary did not fall considerably over the subsequent years, even once the Iron Curtain was erected. The Hungarian trade office in Frankfurt, which, in the absence of a diplomatic relationship between the two countries, also represented Hungary politically in the western provinces of Germany, played a pivotal role in this trade relationship. The Ministry of Foreign Affairs made a proposal as early as 1947 to set up an office in Frankfurt,[166] but, due to international political tensions, the first head of office, István Bródy, who liaised between the two parties at the business negotiations, did not arrive until 1949.[167] From 1947 onwards, trade agreements were concluded between Hungary and the British-occupied territories in West Germany, under which an account was opened with

165 Gábor 2013, p. 238
166 Lázár 2005
167 Gábor 2013, p. 240

the Magyar Nemzeti Bank to deal with cash flow related to trading. Similarly, another account was opened with a German bank.[168] The mutual clearance budget of the accounts depended on annual agreements and was increased tenfold from 100,000 dollars to one million dollars by the second year, 1948. Following this, the sum was raised significantly each year. Research by Péter Gábor shows that the trade balance between the two countries was positive on the Hungarian side until 1949, when the territories under French occupation also joined the agreements. By 1950, this was reversed, leaving the Hungarian side continuously in the red;[169] in 1952, Hungary owed its West German partner 5 to 6 million dollars, even though a deficit of only 3 million dollars was approved. The secretary of the German trade administration in charge of Hungarian matters, Herbert Schellpeper, lent the Hungarian partner a helping hand by not charging the Hungarian debt in dollars to the Hungarian account, but this magnanimity was clearly not something to rely on in the long run.[170] Hungary was offering mostly agricultural produce and hoping to purchase heavy industry goods and raw materials from Germany. The unfolding Cold War undoubtedly made foreign trade difficult, as far more stringent trade quotas were applied to Eastern countries than to the countries in the free world, and the annually updated quotas set a limit on the distribution of certain products. On top of this, embargo rules were imposed increasingly strictly due to pressure from America. As a result, the Hungarian foreign trade office had tough negotiations to conduct with the German ministries to raise quotas and purchase embargoed raw materials and products, not without success.

As mentioned previously, István Bródy arrived at the foreign trade office in Frankfurt as its first permanent representative in 1949. According to state security, he was the man who built a close relationship between the office and Bickenbach's company. Trade agent Hans Englert, who spoke excellent Hungarian as he had previously spent 12 years in Budapest as the trade attaché

168 Ibid. p. 243
169 Ibid. p. 271
170 ÁBTL 3.2.3 Mt-425/1, p. 371 Report, 6 May 1952

of the Third Reich, assisted him in doing so.[171] Trade adviser Englert was one of the first persons to be labelled a war criminal by the magazine *Képes Figyelő*, edited by László Petúr,[172] in 1945.[173] It said: "He was pushing primarily for agricultural exports, and also directed the outlook of German national socialists in Budapest." The author of the article alleged that Englert played a role in making sure that Hungary's oil reserves were available to Germany at any time upon request, regardless of the needs of Hungarian industry.

Born in 1894, István Bródy was the third son of the author Sándor Bródy[174] and worked as a journalist. His articles suggest that he participated in Hungarian-German trade negotiations even before his placement to Frankfurt, as he visited the West German occupation zones in the spring of 1947, reporting on his experiences in a series of articles in the weekly *Haladás.*[175] It is unknown when

171 ÁBTL 3.2.1 Bt-489, p. 16–17 Report, 30 May 1951

172 László Petúr (1904–1973) writer, journalist. His first writings were published in the journal Nyugat, but he also published articles in the dailies Magyar Hírlap, Pesti Napló and Esti Kurír. After 1945, he joined the efforts to launch the daily Szabad Nép and helped organise the police press office. The weekly Képes Figyelő, edited by Petúr, was published between 1945 and 1949. He was also a member of the editorial board of the journal Élet és Tudomány between 1951 and 1964. Petúr also lectured at the Journalist Academy and had several books of poems published.

173 (cf.): Find the first list of notorious German war criminals in Hungary here. Képes Figyelő, 1945/2

174 Sándor Bródy had five sons. Born out of wedlock, his illegitimate son Sándor Hunyady (1890–1942) also became a writer. András (1892–1964) was a journalist and worked as a foreign correspondent for various newspapers, and it was he who edited his father's works for publishing. István (1894–1981) started his career as a journalist but emigrated Hungary in the early 1950s to eventually settle in Miami. Illés (1899–1953) was an exceptionally gifted artist according to family legend, but posterity does not appear to be familiar with any surviving works he produced. At the end of the 1920s, he emigrated to America and published two books on gastronomy before writing a book on the relationship between the British King Edward and Hitler entitled Gone with the Windsors. He died suddenly in San Francisco, soon after the book was published. The youngest son was called János, who chose to go into business, and became the manager of the grain exchange, and the chairman of the Horse Racing Society. He travelled to New York on business, never to return. He stayed on in emigration with his son who had already been living there since he was 15 with assistance from Zoltán Vas. János Bródy's son, Alexander Bródy later became the CEO of one of the largest advertising companies in the world.

175 The weekly Haladás was published between 1945 and 1949 as the press organ of the extreme left wing and anti-fascist Hungarian Radical Party. The editor-in-chief was Béla Zsolt.

and how István Bródy came into contact with the communist secret service, but his posting to Germany suggests he was already working with them at the time. In 1947, he travelled to the western occupation zone to conduct trade negotiations on behalf of the Economic Council with several economic politicians. Bródy is highly likely to have visited the economic leaders of the Bizone with a mission of coaxing them into signing a trade agreement, and to this end he brought along an assortment of produce from the Hungarian agriculture and food industries: "My luggage was rather unusual this time around: it was not a journalist's pencil, notebook and camera that were lying under the shirts and clothes, but dried vegetable stews in small cellophane packages, some jam described as mixed flavour, pea and bean samples, and goose down in paper bags: a traveller's collection of samples."[176] In 1947, strict border controls were in place and persons were only allowed to travel with extra permission, particularly to the West German territories occupied by the Allied Forces. Yet, Bródy's account of crossing the border was a jovial story that reeked of propaganda: "the customs officer glanced into the car, asked us (and believed) how much money we had on us, and then asked me to produce my passport. 'Bródy', he said, looking at me. 'Another Bródy has just crossed here, heading home to Budapest, he was coming from America, also by car. Are you related?' 'He's my younger brother', I replied and started laughing out loud. […] Well, there you go, this is the real Iron Curtain for you: on the very same day, two sons of the very same family cross the border this way and that, two brothers sharing the very same name, neither of whom is a member of any political party whatsoever, or belongs to any kind of strong interest group. They are not even what you could call rich as they live from hand to mouth, beyond their means, not giving a hoot about tomorrow. Two independent men, two restless little engines, driven across the border by nothing other than the desire to be active, to act and explore. The Iron Curtain: a tale for grown-up and gullible children…"[177]

István Bródy set off to Germany on behalf of the Economic Council. The supreme management body of the Hungarian economy was set up in

176 'Neither butter, nor cannons' by István Bródy Haladás, 22 May 1947, p. 5
177 Ibid.

December 1945 with a three-man committee comprising the prime minister and the ministers for industrial and transport affairs at its helm. The operational work of the Council was carried out by the secretariat, headed by communist politician Zoltán Vas.[178] György Oblath said about the early days of the Economic Council that "they also had a pretty tight grip on foreign trade."[179] Zoltán Vas therefore tasked journalist István Bródy to contact the economic politicians in the western occupation zone of Germany who were willing to establish business ties with Hungary. Bródy conducted negotiations with Karl Werkmeister and Herbert Schellpeper, mentioned earlier as the man in charge of affairs related to Hungary.[180] Both of them were Nazi officials, Werkmeister served as a diplomat in Budapest between 1936 and 1944. Following the German occupation, Werkmeister was Veesenmayer's deputy. It was his job to prepare Jewish deportations and he played a role in the Arrow Cross coup in October 1944. Werkmeister escaped trial after the war and became a key figure in German economic management, becoming the leader of the institution that supervised the distribution and use of aid from the Marshall Plan. In 1954, he was awarded one of the highest state honours and was appointed ambassador to Stockholm in 1961. As for Schellpeper's past, he was also a decisive figure in the Hitler era, maintaining a relationship with Hungary as a representative of Nazi

178 Zoltán (Weinberger) Vas (1903–1983) joined the Communists during the Budapest Commune before becoming a member of the Communist Party of Hungary and a soldier of the Red Army. He was imprisoned for several years between the two wars. He was first arrested in 1921 but was transferred to the Soviet Union the following year as part of a prisoner exchange. Vas returned as a Comintern agent in 1925 only to be imprisoned again shortly afterwards. He was released in 1940 together with Mátyás Rákosi and returned to the Soviet Union. In 1944, he crossed the border again as a soldier of the Red Army. After the War, he was appointed secretary of the Economic Council and then president of the National Office for Planning. In 1953, he was stripped of all his offices and was among the intended victims of the Zionist trial being prepared, but Stalin's death saved him from his own comrades' prison. In Imre Nagy's government, he was the head of the Secretariat of the Council of Ministers, but following Nagy's fall, Zoltán Vas was also forced to take a back seat. During the revolution, he acted as a government commissioner for public supplies, before fleeing to the Yugoslav Embassy with Imre Nagy and others. He was pardoned in 1958.

179 Oblath 1985, p. 6

180 'Neither butter, nor cannons' by István Bródy, Haladás, p.9, 19 June 1947

Germany. During the War, he spent an extended period in Hungary "to oversee the transportation of agricultural produce to Germany."[181] After 1945, he was imprisoned in an internment camp for a few months, but a British officer called Griffin released him. It is likely one of the Allied intelligence services had hopes he would cooperate, so he made it back quickly to the field he had worked in previously.[182]

The series of articles by Bródy is a particularly important record, since it probably recorded the story of the first economic negotiations with the Germans, the opening act to a business relationship that lasted for decades and which defined the foreign trade opportunities of socialist Hungary. In the spring of 1947, the Communist Party sent an envoy to the Nazi officers, who had been posted to Hungary only a few years previously and were personally responsible for deporting Hungarian Jews and stripping the country of its economic assets. The envoy was a descendant of an old Jewish family, who lost numerous relatives to the horrors of the Holocaust. The author herself understands that one might ask how it could be that an antifascist journalist of a newspaper writing a striking amount on the Holocaust conducted trade negotiations in the zone of the former Nazi Germany occupied by the 'Imperialists' with persons who had been, without exception, serving the Third Reich. Bródy's response gives an opportunist explanation of the phenomenon, shedding some light on the moral background of the outlined collaboration for our benefit too: "The answer to this question is that the rule of life knows no other aspect than the material one, the natural one. Disobey this rule, as a single person or an entire nation, and you will die of its heroism, its emotions, its pride, its sorrow, its hatred or its love."[183]

István Bródy's mission in 1947 was before long followed by a delegation to Germany, where official negotiations began that resulted in annual trade agreements being concluded between the parties. Earmarked to continue to play a key role, Bródy was transferred to Frankfurt in 1949 to head the trade

181 ÁBTL 3.2.4 K-472, p. 45 Study plan, 21 April 1952
182 ÁBTL 3.2.3 Mt-425/1. 87. Junger's report on the ministerial line, undated.
183 'Neither butter, nor cannons' by István Bródy Haladás, p.9, 19 June 1947

office. Soon enough, he was accused by Hungarian state protection of being in contact with the American secret service. This sounds plausible in the light of previous events as there is evidence that the German business partners of Hungarian traders were also supported by American intelligence. This gave the Americans easy access to the Hungarians. Furthermore, the CIA archives hold several reports showing that the staff of the Hungarian trade office in Frankfurt were regarded as potential informants, and that the organisation made attempts to approach them. An interesting supplement to this is a report on a certain Andreas Bródy archived by state protection, the content of which we accessed via the West German Constitution Protection Office. (Unfortunately, I found no mention of how they obtained this information.) According to German counterintelligence, Andreas Bródy was managing a Frankfurt-based economic intelligence service on behalf of the Soviets, and his most important business connections were Bickenbach and his business partner, Englert. Hungarian-born Bródy was engaged in the grain trade until 1944. He moved to Moscow after the war, where it is said he participated in training courses. He returned to Hungary in 1946 only to be sent off immediately to the western zone of Germany, where he worked as a resident officer of the Soviet secret service. Every single person travelling from Hungary to the western provinces of Germany had to report to him. According to German counterintelligence, his son, István Bródy worked for Andreas Bródy's office.[184] We know for a fact that István Bródy's father was Sándor Bródy, who also had an older brother called András. András Bródy was known as a journalist, worked as a foreign correspondent for a number papers, and was the editor-in-chief of the *Ufa Magazin* in the 1930s. Could Andreas Brody actually be András Bródy? Based on the information currently available, this possibility seems the likeliest. It was no coincidence that the Hungarian translation of the West German report was archived in a dossier containing documents on work at the Frankfurt office: it must have been important for Hungarian intelligence to learn what hostile counterintelligence could possibly have known about the Bródy brothers. Based

184 ÁBTL 3.2.3 Mt-425/3, p. 974–976 Report on Dr Andreas Bródy, September 1951

on this report, it is safe to assume that the Bródy brothers were in contact with the Soviets, which would explain why a mediocre journalist, István Bródy, was given the task in 1947 of establishing a relationship of strategic importance. We can safely discount the possibility that he was picked at random without a story behind him. It was the Muscovite Zoltán Vas who sent István Bródy to the West German zone to negotiate, and it was also he who liaised with János Bródy, the only Bródy sibling involved in grain trading. Zoltán Vas was one of Comintern's leaders in the interwar period, so his trust in the Bródy brothers probably dated back to his time in the illegal movement. As a novice journalist, István worked in Berlin, then centre of the Communist network in the West, "which had a sizeable Hungarian diaspora."[185] We do not know about István Bródy's nexuses in Berlin, but we do know that a lot of Hungarian communists were tasked by Comintern to go to Berlin after the fall of the Commune, where some of the reds compromised during the Hungarian Soviet Republic fled to. The common point in András and István's life was that they both worked for the German-owned film studio Ufa in the 1930s. According to a verbal account, István returned from Berlin as Ufa's director in Budapest.[186] (It is worth noting, though, that Ufa was becoming a mouthpiece of Nazi propaganda from the 1930s onwards.) Comintern primarily targeted artists and culture in its attempts to ensnare members of the intelligentsia sympathising with leftist ideas.[187] Living a Bohemian life, Illés Bródy (István's younger brother, who is likely to have been the one who crossed the border on the same day as István on a trade mission) travelled the western world in the 1930s, finally ending up in America. According to his brother, he was still allowed to across the border in 1947 without any issue. It makes one wonder what passport he held. Is it possible that after the fall of the Commune, Sándor Bródy's sons were linked to the Soviet secret services through Comintern or another international network? This would explain the role of the Bródy family after 1945, and why it was so difficult to track down information about them even despite the fact that István

185 The Last Mohican by György Márer: Amerikai Magyar Népszava, p. 10, 9 October 1981
186 Ibid.
187 Cf.: Koch 2014

Bródy's assignment in Frankfurt would suggest a continuous relationship with Hungarian intelligence. In the absence of sources, this is, however, just one of several plausible explanations.

In 1950, István Bródy was sent to Cuba. All we know about his activities there is that he tried to penetrate the Cuban market with Hungarian products, without success. (At the time, the island state was reluctant to do business with traders from satellite countries, except for Jose Schachter from Havana.[188]) In 1951, István Bródy 'defected', but barely any information emerged on this. All we know is that he took all the documentation from the Frankfurt office with him when he was transferred to Cuba. Did he plan a switch to the other side in advance, and chose, therefore, not to leave confidential documents behind? Or was his escape staged, so he took the documents of various agreements with him to ensure plausible deniability and serve as bait for the hostile secret service? It is impossible to rule out either possibility.

Information is provided on István Bródy's later life in a newspaper article published after his death.[189] According to the article, he lived first in Paris, then made a living by working for a big corporation in Cuba, where his job was to "review news in the most prestigious newspapers across the world to compile an economic news report on a regular basis."[190] After Castro took power, he moved to the US to settle in Miami Beach, in a palatial rented property on the bay. "According to our observations, Pista Bródy and his family lived well. He continued to receive his salary from the former Cuban company," a source recalled. István Bródy's body was laid to rest in his father's grave in the Rákoskeresztúr public cemetery in 1981.

Károly Junger replaced Bródy as head of the trade office in Frankfurt in 1950. He nearly ran into trouble due to the missing documents, because he signed the inventory blind upon handover without actually checking the presence of the documents listed. However, he was not held to account as the

188 CIA, FOIA, Current Intelligence Digest, 18 March 1952 https://www.cia.gov/library/readingroom/docs/CIA-RDP79T01146A000800230001-5.pdf (Downloaded on: 21 August 2019)

189 'The Last Mohican' by György Márer: *Amerikai Magyar Népszava*, p. 10, 9 October 1981

190 Ibid.

authorities believed that the documents were taken by Bródy,[191] or rather they had full knowledge of everything as they conspired to make Bródy disappear. Junger was posted in Frankfurt as an agent of state protection. His surviving reports provide information on the beginnings of Hungarian–West German trade relationships.

Born as the son of a rabbi in Zalaegerszeg, Károly Junger went on to graduate from a one-year trade academy after his matura exam. He started working at the electricity company Egyesült Izzó in 1937.[192] During the war, he was subjected to forced labour, and deserted in 1945 to join the approaching Red Army, returning to his original job once the fighting was over. He worked as a materials buyer, and, according to the information of state security, made a lot of money during the inflationary period by engaging in the black market.[193] From 1948 until he was posted in Frankfurt, Junger was employed by the Heavy Industry Centre. Junger was recruited by the State Protection Authority under the cover name of 'Áron Gábor' before his placement to Frankfurt, but the cover name 'Ferenc Bodnár' was also indicated on his recruitment information sheet.[194] This may be of interest as the report compiled by German intelligence on Andreas Bródy says a person called Bodnár also worked in Bródy's network.

So Junger took over István Bródy's post in 1950. The active Hungarian foreign trader who made sure Bickenbach's company made West German-Hungarian trade its own, effectively as a monopoly, inevitably piqued the interest of the American secret service. It is not just the trade agency established with the Bickenbach company, however, that can be linked to Junger, he also built his own network in West German government circles, trade administration and various government offices, bribing people in the highest positions,[195] as a result of which Hungarian foreign trade delegations achieved great success when negotiating annual trade agreements and setting quotas. The CIA held the office in Frankfurt under surveillance and even had a secret service operation under

191 ÁBTL 3.2.1 Bt-489, p. 35 Executive Report, 21 January 1953
192 ÁBTL 3.2.1 Bt-489, p. 9 Executive report, 5 June 1951
193 Ibid. p. 10
194 ÁBTL 3.2.1 Bt-489, p. 6 Recruitment information sheet, undated.
195 ÁBTL 3.2.1 Bt-489, p. 33, 11 June 1951

the cover name of HENNE,[196] which used a member of the Gehlen organisation, Helmut Triska, to get close to Junger and obtain information from behind the Iron Curtain.[197] The Americans attempted to approach Junger not only through Triska, American military counterintelligence, ODOPAL[198] as the CIA called them, also set its sights on the state protection agent. Even KUBARK itself, that is the CIA, made moves to contact him via a dissident.[199] This fervent interest can be attributed to the fact Junger used his nexuses with impressive skill, while Western secret services were already realising that Hungarian foreign trade was easing a wedge under the Iron Curtain. The background to the foundation of companies explained in the previous chapter suggests, of course, that the American secret service was not merely an idling observer but an active initiator of this business network. In other words, they knowingly and willingly ensured the conditions necessary to keep the back door open, and were clearly keen to reap the benefits of this network for intelligence purposes. The Americans were very much aware that Junger was an agent of the State Protection Authority and therefore represented an opportunity to penetrate the 'front lines' of the enemy. The level of information they held is indicated by the fact they were also aware that Miklós Bauer was Junger's supervising officer too, so when the notorious leaders of the State Protection Authority were arrested in 1953, they expected Junger to be summoned home, in response to which he might refuse

196 HENNE was the cover name for the operation launched against the Hungarian trade office in Frankfurt by Gehlen's organisation, which went by the cover name of ZIPPER. Research Aid: Cryptonyms and Terms in Declassified CIA Files Nazi War Crimes and Japanese Imperial Government Records Disclosure Acts https://www.archives.gov/files/iwg/declassified-records/rg-263-cia-records/second-release-lexicon.pdf (Downloaded on: 21 August 2019)

197 CIA, FOIA, Special collection of Helmut Triska, 14 October 1953 https://www.cia.gov/library/readingroom/docs/TRISKA%2C%20HELMUT_0055.pdf (Downloaded on: 21 August 2019)

198 ODOPAL: US Army Counterintelligence Corps. Research Aid, https://www.archives.gov/files/iwg/declassified-records/rg-263-cia-records/second-release-lexicon.pdf (Downloaded on: 21 August 2019)

199 CIA, FOIA, Special collection of Helmut Triska, 14 October 1953 https://www.cia.gov/library/readingroom/docs/TRISKA%2C%20HELMUT_0055.pdf (Downloaded on: 21 August 2019)

to return and seek asylum rather than risk being held to account.[200] The CIA was apparently preparing Junger's defection as early as 1953, but had to wait several years longer: Junger was indeed ordered to return home at this time, not to be arrested, but to save him from the grip of the American secret service. State protection was clearly aware that Junger was the target of hostile secret services, they even considered the possibility that he might be collaborating with the Americans, but this was eventually ruled out. Junger also made purchases of embargoed items. In 1952, one of the illegal shipments, machinery from a German industrial company, was intercepted at the German-Swiss border. Unfortunately, neither the American nor the Hungarian sources specify exactly what machinery was transported. Junger bribed the officials carrying out the check with 10,000 West German marks and they let the consignment pass.[201] The machinery arrived in the Bloc, but the American authority in charge of ensuring compliance with the COCOM list[202] launched an investigation, which led to Junger. The secret service of the United States put pressure on the West German police to arrest the Hungarian foreign trade attaché, so the State Protection Authority decided to order Junger to return home immediately.[203] He was temporarily given tasks in Hungary, first as head of the export-import division of the Ministry of Foreign Affairs[204] and later as an employee of Technoimpex.[205] During the winter of 1955-56, he was sent to South America for six months, where he was tasked with finding partner companies. Economic cooperation between Hungary and developing capitalist countries was hugely promising

200 Ibid.

201 CIA, FOIA, Special collection of Helmut Triska, 31 July 1953 https://www.cia.gov/library/readingroom/docs/TRISKA%2C%20HELMUT_0012.pdf (Downloaded on: 21 August 2019)

202 The COCOM list was the list of technologies subject to the trade embargo imposed on the countries of the Eastern Bloc, as compiled by the Coordinating Committee for Multilateral Export Controls established by international treaty in 1947. For more on the topic cf. Førland 2009; Libbey 2010

203 ÁBTL 3.2.1 Bt-489, p. 54 Report, 16 April 1957

204 On 7 November 1952, Károly Junger was awarded Category V of the Order of the Hungarian People's Republic for his work as the head of office. Magyar Közlöny 1952/78, 7 November 1952, p. 668

205 Technoimpex was engaged in the sale of machinery.

and Junger had experience in building trade networks. All evidence suggests he did an excellent job: Hungary made huge profits selling Brazilian cocoa and coffee on Western European markets, but we will return to this in detail later. In October 1956, Junger was on another business trip in Argentina. He was on his way home in early November when he received the instruction from the new government to stop in Vienna and negotiate with the local branch of the Red Cross. He was staying at the Hungarian Embassy in Vienna when his family joined him at his own request. Junger then announced that he did not intend to return to Hungary, deciding instead to emigrate with his family.[206] Before long, he was employed by the West German Thyssen concern as commercial director of the smelter in Essen. His first business trip took him to Argentina, where he had previously made connections representing Hungarian companies.[207] Junger was well-known in western business circles, and to western secret services, so he probably knew that he could rely on his associates if he emigrated; there was obviously good reason for him to be appointed to a high position at one of West Germany's most important companies. His former acquaintances, who had a business relationship with him during his posting in Frankfurt, eyed his fast-tracked western career with suspicion; Todenhöfer, for example, reproached János Nyerges in the spring of 1957 for helping Junger escape in order to have him promote Hungarian interests at the company employing him.[208] We found no evidence in the materials to support this, and the Ministry of Interior could hardly have foreseen Junger's flight.

The key to success

Hungarian foreign trade needed constant price balancing, which meant that the production costs of certain goods exceeded the world market prices of

206 ÁBTL 3.2.1 Bt-489, p. 51 Report, 16 February 1957
207 ÁBTL 3.2.1 Bt-489, p. 46 Report, 16 April 1957
208 ÁBTL 3.1.2. M-25447/1 p. 6 Report, 19 April 1957

these goods and could therefore not be sold at a profit. As a consequence, the state provided aid to the company manufacturing them to compensate them for their loss. The government used the profits made from the sale of profitable products to cover the losses from providing aid to loss-making exports and from providing consumers with expensively purchased goods/materials at reduced prices. When such profits proved insufficient, the national budget had to step in to finance the losses.

Price balancing was already common practice between the two world wars in certain areas of exporting. It was designed at the time to help the economy back onto its feet following the shock of Trianon. After the first global conflict, the dismembered country had access to crude oil only from the Grozny oil fields, exporting machinery to Russia in return. Production costs, however, exceeded the prices charged for the goods to the newly created communist empire.[209] Purchasing oil was of strategic importance, so the government supported deliveries through price balancing. After World War Two, however, it was the need for foreign currency that called for price balancing. Selling goods manufactured at excessive cost and often to questionable quality standards to capitalist markets was unavoidable for the country to increase its hard currency reserves. Manufacturing companies were therefore given continuous state aid.[210] Research by Pál Germuska shows that price balancing peaked in 1954, accounting for 21.7 percent of the entire budget.[211] Most exports to Germany before 1956 were of agricultural produce and the amount of compensation spent on these exports was also staggering, accounting for 59 percent of the entire export value in the first three quarters in 1950.[212]

All this information leads to the logical conclusion that the overwhelming majority of Hungarian foreign trade was loss-making; only the intention to obtain hard currencies can explain why a presence in capitalist markets was pushed so hard, a requirement the countries in the Bloc were forced to meet

209 Gábor 2013, p. 241
210 In detail, cf. Germuska 2011
211 Germuska 2011, p. 393
212 Gábor 2013, p. 241

throughout this period. This conclusion is also underpinned by the fact that the foreign trade balance closed with a deficit nearly every year from the 1970s onwards, which means that the country became indebted primarily due to the unmarketable quality of Hungarian goods. By the late 1980s, Hungary was highly indebted, which is usually attributed to inept economic policy, the foreign trade deficit, deteriorating trading ratios and loss-making production, which was only exacerbated by János Fekete's loan policy: 90 percent of the loans taken out came from bonds issued under free market conditions. As a result, the rescheduling of debts or an agreement for a moratorium was not even an option following the change in political system.[213]

However, far more subtle factors underpinned the economic failures of socialist Hungary. In truth, however, riding the extreme waves triggered by the Cold War with exceptional talent, Hungarian foreign traders developed a system, which if reconstructed might fundamentally change our concept of the economic history of socialist Hungary. This highlighted the unique role of Hungarian foreign trade, the success of which one can hardly dispute, unlike its consequences. The roots of the phenomenon go back to the cooperation with the West German individuals I introduced in a previous chapter.

During his posting in Frankfurt, Károly Junger was able to achieve favourable conditions for Hungary. The success of his business negotiations was also facilitated by government officials. Junger bribed several people in foreign trade to bring about favourable changes to the commercial quotas applied to Hungary. One of his principal partners was Bruno Süssmilch, an official of the Intergovernmental Department of the Ministry of Supplies, who had previously served the Third Reich himself as a member of the Nazi Party and who lost a leg in the war.[214] Süssmilch would inform Junger about the directions of German trade policy, although this was not intentional according to the CIA.[215] Junger's reports, however, suggest that Süssmilch was not as naive

213 Oplatka 2014, p. 106

214 CIA, FOIA, Special collection of Helmut Triska, 14 October 1953 https://www.cia.gov/library/readingroom/docs/TRISKA%2C%20HELMUT_0055.pdf (Downloaded on: 21 August 2019)

215 Ibid.

as the Americans believed him to be. Junger dined and wined the ministry employee on a regular basis, occasionally giving him gifts, and Süssmilch, or 'Milky', his cover name at state security, asked for the occasional favour from the Hungarian trade attaché in return. Sometime in 1951, he came up with the idea that the Hungarians should help him leave his government job, because he was not earning enough to make a decent living and that he should be allowed to join Bickenbach's company as a trade agent.[216] He regarded Bickenbach as his old fellow fighter, they knew each other from Nazi times, and he was trying to make his request appealing by explaining in detail what a great help his nexuses could be to the company representing Hungarian interests in the ministry, since, with their assistance, he could tackle the company's import troubles. It would have been unhelpful to Hungarian interests had Süssmilch left the ministry, but they did not want to deny his request because that could have cost his cooperation. Junger eventually persuaded him to stay at the ministry, but he was made a secret partner in Bickenbach's company, pocketing 600 to 700 deutschmarks in commission a month, exactly the amount he was earning at the Ministry.[217] Süssmilch proved himself to be far from ungrateful later on. He made sure, for example, that Hungary was allowed to export salami to Germany again; something the country had not had the opportunity to do since the war, given that German salami manufacturers prevented the issue of import licences. The quota issued enabled the export of meat products worth 200,000 US dollars. With help from Süssmilch, Hungarian companies were able to transport three times the volume of wine stated in the trade agreement to West Germany, which meant they sold more wine to the Germans than before the war. Süssmilch helped not only to manipulate trade quotas, but was also present at the German-Hungarian trade negotiations, where he constantly gave away the position and negotiation intentions of his own delegation, giving the Hungarian partner an advantage over the Germans. In the autumn of 1952, he visited Hungary as a member of a trade delegation, where the agents of the State Protection Authority blackmailed him during a night of excess at a pub

216 ÁBTL 3.2.3 Mt-425/1. 87. Junger's report on the ministerial line, undated.
217 Ibid.

over something that could have led to his immediate dismissal from his job.[218] In January 1953, the CIA used this incident to explain that Süssmilch left the ministry to be employed by Bickenbach's company, allowing him to work with Hungarian intelligence and pass on information. State security documents, however, do not suggest that Süssmilch was truly concerned about supporting Hungarian foreign traders. In addition, we know that Bickenbach practically made his entire living from his Hungarian relations. According to a CIA report, Süssmilch also travelled to Pakistan and Brazil several times to represent the company.[219] He later worked as a representative of an Argentinian-West German company and came into contact with Junger again in Argentina.[220] Far from severing ties with the Hungarian network, Süssmilch was regarded by János Nyerges as a potential supplier of economic intelligence when he moved to Brussels in the early 1960s to work at the organisation responsible for the agricultural matters of the Common Market.[221]

Another key contributor to the establishment of Hungarian-West German trade relations at the Ministry was Herbert Schellpeper, whom István Bródy had already conducted negotiations with in 1947. Schellpeper participated in the business negotiations as the official of the division in charge of foreign trade responsible for Hungarian relations at the Federal Ministry for Economic Affairs (*Bundesministerium für Wirtschaft*).[222] In addition to Hungary, south-eastern Europe was also assigned to him, and Schellpeper also had a say in determining trade and purchase quotas. Junger was eager to report on the ramifications of intermediation by Schellpeper, or 'Salty', as state security chose to call him. Thanks to his highly effective manoeuvring, he was able to arrange for West Germany to open up an additional quota of 800,000 US dollars for rolled goods in 1951, in spite of the ban imposed by the American

218 CIA, FOIA, Special collection of Helmut Triska, 14 October 1953 https://www.cia.gov/library/readingroom/docs/TRISKA%2C%20HELMUT_0055.pdf (Downloaded on: 21 August 2019)
219 Ibid.
220 ÁBTL 3.1.2. M-25447, p. 321 Report, 8 June 1962
221 Ibid. p. 323
222 Gábor 2013, p. 240

authorities.[223] Junger reckoned that Schellpeper was playing the odds, since the Americans could have arrested him if he got caught, and yet he went on promoting Hungarian trade interests continuously, for example, by feeding Hungary secret information from the Ministry, or by releasing consignments held up by the American authorities to allow them to continue their journey to Hungary. The latter occurred dozens of times. Schellpeper was surprisingly successful in setting the annual quotas for purchases, whereby Hungary was given a framework budget of 500,000 dollars to export goods of her own choosing to the territory of West Germany without any additional export licences. This framework was the same as the volume foreseen for France. The Hungarian foreign trade mission also had Schellpeper to thank for making sure Germany did not debit amounts in free foreign currency for a long time to the bank accounts kept to settle accounts at the expense of the Hungarians. Why the German official did all this is a legitimate question to ask. We have no evidence to suggest that he was bribed to the extent Bickenbach or Süssmilch were, although small gestures were frequently made, for example, when Junger would accompany Schellpeper to the tailor with whom Junger had previously agreed to have the German official's suit made from the most expensive fabric at the price of the cheapest material, with the difference to be paid by Junger.[224] However, Schellpeper shared the same political views as Emil Hoffmann, and he was prepared to do anything to see Germany reunited, the greatest obstacle to which was, he believed, America. On top of all that, Schellpeper was convinced that the German economy needed its traditional markets, and that giving in to pressure from the Americans to slam the door on the Eastern Bloc would have been tantamount to treason. Junger was probably not exaggerating when he described Schellpeper as a chauvinist man, and it is also more than telling that this kind of Nazi attitude was expressly welcomed by the new Hungarian political elite.[225]

223 Ibid.
224 ÁBTL 3.2.4 K-472, p. 7 Note about Schellpeper, undated.
225 ÁBTL 3.2.3 Mt-425/1, p. 88 Junger's report on the ministerial line, undated.

In addition to the German traders mentioned, the staff of the Hungarian trade office maintained relations with the representatives of several companies. It would be pointless to list each and every player in the hundreds of pages of reports, but it is safe to say that, over the first few years, the overwhelming majority of the cooperating persons were former supporters and members of the Nazi Party unable to come to terms with the war losses. One of these people was a Mr Jajce, who worked not only as the German liaison officer at Montan Export, but also had a full-time job in a senior position at the Salzgitter steelworks. According to Junger, the Dutch company Montan was known for having been in charge of trade between the Soviet Union and the Netherlands before the war. Montan did not sever ties with the Communist Bloc after the war, and the Hungarians were able to make arrangements through Jajce and his influence with the company Salzgitter, to be precise, for a licence to be granted to deliver 2,300 tonnes of boiler plates to Hungary. The significance of this lies in the fact that the American authorities put a ban on exporting goods manufactured with coal imported from the US to any of the people's democracies. It pained Jajce to see Germany forced to purchase coal from the US, as he found this to be an unnecessary and loss-making move for Germany, so he was happy to circumvent the embargo on goods made from imported coal.[226]

We can clearly see that the office in Frankfurt played a decisive role in preventing Communist Hungary from becoming isolated and in building trade channels. These relationships worked even during the iciest years of the Cold War and would then be used during the years of opening up to the West. This period was not merely about establishing a path to big companies in the West and to trade diplomacy, but also about building a unique mechanism that gave rise to the Hungarian offshore network by the 1970s: the activity known as re-exporting.

226 ÁBTL 3.2.3 Mt-425/1, p. 122 Report, 19 September 1951

A Cold War Hungaricum

The idea of re-exporting is that a third-country party, the re-exporter, steps into the trade between the two countries, acting as the buyer on the import side and the seller on the export side. Re-exporters do not change a thing about the sold product, they only deal with the paperwork; often the given consignment does not even enter their own country, instead it is sent directly from the seller to the buyer. The profit for the intermediary either comes from a commission, or from the difference in the price paid to the importer and the price collected from the exporter. In the midst of the Cold War it was extremely important to be able to conceal the country of origin using re-exporting transactions, because if the goods entered the country of the intermediary firm, i.e. the delivery was not made directly between the two parties to the business transaction, then the goods could be repackaged and the papers changed – or 'neutralised', as this procedure was referred to in foreign trade. This meant western companies were able to circumvent the strict embargo regulations as they were only in direct contact with the intermediary. Officially, they did not need to know anything about the actual buyer, and very often, they did not actually have any knowledge of the transaction. Re-exporting can be a reasonable decision, of course, to optimise business. If an exporter unfamiliar with the market engages an intermediary who knows the laws of the importing country, or if the exporter does not wish to waste time and energy on market research, it can sell its goods to an intermediary firm that pays for the goods immediately, and the rest is the responsibility of the new owner. Transiting worked in a similar way, but this sort of commercial transaction was designed specifically to get around trade policy, the intermediary person or company received the commission anyway, and the contracting parties always knew each other, as outwitting the system was the name of the game.[227]

227 For more details on the special foreign trade transactions see: Törzsök 2008

Re-exporting was a well-known tool in trade for many decades, but it did not exactly become a particularly typical activity over the years when the Cold War unfolded. Instead, bilateral agreements dominated the arena. From the early 1950s, however, American intelligence became aware of the emerging trend, which was a typical feature of Hungarian foreign trade, and eyed the special deliveries with suspicion. The striking frequency and increasingly significant role of re-exporting prompted the CIA to commission an analysis on the phenomenon, assessing the ramifications of re-exporting and the profit that made the Hungarian trade administration so keen to become involved in transactions as an intermediary.[228] They believed they were clearly dealing with a classic example of profit-oriented capitalist business: it was enormously important for Hungary to obtain hard currency, so it developed a mechanism that made sense in a capitalist context in the shadows of the Socialist command economy.[229] According to the information gathered by American intelligence, re-exporting was often loss-making, but these transactions were pushed to such an extent that Hungary had a higher proportion of re-exports than any other country in the world. These trade transactions accounted for 12 percent of foreign trade in 1955, while 10 percent of all the foreign trade contracts concluded by Hungary were re-exports over the first three quarters of 1956. For the purposes of comparison, we can find some data in the report: in 1956, re-exporting transactions concluded by the Soviet Union accounted for 7.4 percent of its foreign trade, while the same figure was 1 percent in the GDR, 5.5 percent in Ceylon and 3.8 percent in the United Kingdom, and just 0.3 percent

228 CIA, FOIA, Economic Intelligence Report – The Role of Re-exports in Hungarian Foreign Trade. June 1959
https://www.cia.gov/library/readingroom/docs/CIA-RDP79R01141A001400100002-2.pdf (Downloaded on: 28 August 2019)

229 It is interesting to ask the question of where American intelligence received the information from to come to this conclusion. In 1958, István Pálos published a study on the foreign trade performance of the country in 1957, included tables with statistical data, and special emphasis seems to have been placed on re-exports. These figures are strikingly similar to the data published by the CIA, although they did not fully coincide with the information held by the Americans. This could quite possibly have been one of the sources of information but it is of course also possible that they gathered information from emigrant foreign traders or through the local operational network. Pálos 1958

in Japan. So, although Hungarian re-exports in 1956 were far more considerable than those of even the Soviet Union, this gap only deepened later on, even though it was the Bolshevik regime that created this technique to support left-wing parties in the West by using party firms as intermediaries, and thus essentially channelling the commissions paid into illegal party funding. The system functioned up until the collapse of the Soviet Bloc and all the satellite states were obligated to use it. From the early 1970s, however, the money flowing from Hungary to sister parties in the West was not substantial,[230] even though intermediary trade was only beginning to truly scale up at the time. As it is not possible to ground this phenomenon in clear ideological reasons, noting also that the frequent losses made by the re-exporting business caught the eye even of the Americans, not to mention the fact that the Hungarian foreign trade balance was negative nearly every year from the 1970s onwards, the question arises of what the purpose of the mechanism was in the first place. According to the Americans, the most straightforward explanation lay in the previously mentioned pressure to obtain hard currency, and given how badly the countries of the Eastern Bloc needed hard currency at all times, this cannot be challenged, yet the explanation still seems too thin, particularly when we consider the countries of origin and destination of the re-exported goods. In 1957, three quarters of re-exports were destined for the free world, but what is truly surprising is that this was where 45 percent of this activity originated from, so Hungarian firms were involved in the trade relations between two western countries.[231] It is difficult to put one's finger on what interests capitalist firms could possibly have in using a state company behind the Iron Curtain to do business with each other during the Cold War. There may in part have been underlying political motives, just as in the case of the Iranian oil transit mentioned previously, when western countries were not allowed to buy black gold from the Persian country due to the American embargo. But all this

230 Szilágyi 2015, p. 55

231 CIA data suggest that 33 percent of Hungarian re-exports took place between the two western countries, 43 percent of re-export transactions involving eastern goods were sold in the West, re-exporting within the Bloc accounted for 11 percent, and acting as an intermediary to channel western goods into the Eastern Bloc accounted for the rest.

must have had economic reasons, too. In 1963, for example, a West German company used the Hungarian foreign trade company Monimpex to buy coffee from Kenya.[232] Hungary was given discounts by the African country as a new commercial partner of the Kenyan market, and was therefore able to buy the product at reduced rates. The final beneficiary of the transaction was a coffee importing company called Rothfos, owned by the businessman Harald Köln, who moved in Emil Hoffmann's circles. Following the delivery of 9,000 bags of coffee beans, the German partner transferred half of the price difference, 18,000 US dollars, to the Hungarian company. The Hungarian partner took no risks with the transaction as even the shipment was arranged by Harald Köln, so the leaders of Hungarian foreign trade were getting ready to arrange further coffee and cocoa transports, and also engaging other countries.[233] The person behind the negotiations was Ferenc Arató, former head of the compensation department of the Ministry of Foreign Trade and deputy general manager of the MKB at the time. Arató was previously known as a real expert in switch transactions,[234] and reports by János Nyerges show that he was already involved in foreign trade machinations during his time at the ministry. In early 1956, for example, he attempted to broker a fraudulent deal proposed by a German trader in close cooperation with János Fekete. The German trader wanted to deliver goods to the Brazilian markets by forging documents of origin and transport to present the goods to customs as Hungarian industrial goods, regardless of

232 ÁBTL 3.1.5 O-12344/7-a Report no. 201, 27 April 1963.

233 ÁBTL 3.1.5 O-12344/7-a p. 202 Negotiations report by Monimpex, 30 March 1963

234 Kövér [2001], p. 19 Switch transactions were the other popular form of special transaction associated with foreign trade for socialist Hungary. A switch was based on international state trade agreements in which the volumes of particular goods to be exchanged was determined in advance for one year. The emphasis here is on the word exchange because the transactions took place without actual movements of currency. Instead, goods were paid for with other goods. For these deliveries, the intrinsic value of the products was determined and recorded in a clearing currency; this is not an actual amount of money, it simply records the debts/receivables. The given country obtained access to the currency after the contractual deadline expired, but at a slight loss, because the purchasing value of the clearing currency was always lower than that of the convertible currency, so if the goods obtained during the exchange were sold on the convertible market, the country did gain access to convertible currency, or disposable currency, but this value fell short of the value of the goods delivered based on the clearing settlement.

the fact that "their character did not match the profile of Hungarian exports (American automotive parts, for example)".[235] Not unlike previous cases, profits were to come from the fact that the Hungarian partner had preferential treatment in the market of the South American country. In this case, however, it was not merely a simple re-exporting transaction, but forging documents. Arató and Fekete argued in favour of accepting the deal on the grounds that their culpability could not be proven if the deal was exposed, as the fraud would be committed by the German trader alone. No written agreement or contract would be drawn up, so it would be impossible to prove that the Hungarian party was aware of anything and that they even benefited from it. In the end, the Hungarian partner refused the proposal after the officials of the Ministry of Foreign Trade who were concerned about Hungary's reputation eventually won the argument, predicting a degree of ethical damage in the event of exposure that was not commensurate with the potential profit.[236] Several sources have survived regarding the re-exportation of coffee and cocoa. Hungary purchased considerable quantities of both products from Brazil, but the vast majority of the goods did not end up with Hungarian consumers. In 1959, for example, the country imported coffee from the Amazonia region for 3.5 million dollars, but less than one million dollars' worth of goods were actually sold in Hungary.[237]

Although the American source does not mention this, previous research shows that the Hungarian foreign trade elite built a considerable corruption network in Western Europe, which probably also contributed to the fact that certain western firms were ready to use Hungarian companies as intermediaries even when they could have purchased the goods themselves. Keeping business relations alive and safeguarding their share in the Hungarian market were obviously important aspects to consider, and, bearing in mind the Iranian oil transiting mechanism we have mentioned several times already, we can also assume that the Hungarian party was willing to sell the goods below the

235 ÁBTL 3.1.2 M-25447, p. 132 Note for Comrade Mádai, 6 January 1956
236 ÁBTL 3.1.2. M-25447, p. 133 Note, no date indicated.
237 ÁBTL 3.1.2. M-14967 p. 306 Statement by emigrated Hungarian trade attaché György Lázár in the 30 April 1960 issue of the daily O Estado de São Paulo.

purchase price if certain conditions were met. In this case, western firms may have slipped backhanders to the re-exporting company or its representative.

Regarding the goods delivered from the Bloc to the West, the American report reveals some intriguing data.[238] The Americans had little information on the exact extent of the profits or losses the Hungarian economy made from re-exporting, but they claim to have reasonably precise figures on the goods delivered from socialist countries to the free world in 1957. Most of the time, the country of origin of the East-West transfer was China. Such resale transactions produced hard currency revenues totalling 28 million forints in 1957, but only 26.1 million forints was paid to the seller for the goods, 11.5 million forints were spent on transportation and 700,000 forints disappeared as other costs, so a loss of 10.3 million forints was 'generated' through the transactions. Even the CIA is reluctant to draw general conclusions from this single data set, but it did find that Hungarians reckoned the loss was worth it just to obtain hard currency. The report also notes that the notion of profit can be very different depending on perspective. It may have been more important for Hungarian foreign traders to acquire markets in the long run than the actual financial profit from a given business deal. For example, the Hungarians also undertook obligations to deliver raw materials that were unobtainable in the country or industrial goods that could not be produced, at least not in the quantities required. On these occasions, Hungary was given the opportunity to obtain hard currency by trading goods that were not manufactured in the country and was thus able to obtain commercial quotas for the delivery of such goods. The American intelligence services clearly attempted to provide a logical explanation of the phenomenon, and did find relevant answers to the questions raised, but the reality was probably laced with slightly more profane elements. From the subsequent years, we have plenty of data to suggest that straightforward corruption lay behind the deals that made major losses for the

238 CIA, FOIA, Economic Intelligence Report – The Role of Re-exports in Hungarian Foreign Trade. June 1959
https://www.cia.gov/library/readingroom/docs/CIA-RDP79R01141A001400100002-2.pdf
(Downloaded on: 28 August 2019)

country, whereby the western partner slipped back some of the profit made to the account of the trader who ensured the favourable conditions. In the last few weeks of 1969, for example, the Lenin Kohászati Művek steelworks in Diósgyőr undertook a delivery of 2,700 tonnes of tungsten steel at the initiative of Metalimpex. The order came from firms operating in West Germany that had long-standing business relations with the management of Metalimpex. It was already clear upon the signature of the contract that this was an impossible undertaking as the steelworks in Diósgyőr did not have that kind of capacity. The plant could have fulfilled an order of no more than 200 to 300 tonnes and did not even have the necessary raw materials available. This resulted in a massive loss. The contract fixed prices at 1969 levels for the time of performance, even though the world market price of wolfram was rather volatile, so it was common to fix prices only a few weeks in advance. In January 1970, the price of wolfram skyrocketed to ten times its previous value, so the Hungarian economy would have suffered damages of 300-400 million forints even if the necessary raw material had been available to the steelworks. The company itself suffered major losses on the procurement costs, even though the emergency reserves of the country were mobilised (without authorisation). On top of all this, the steelworks had no choice but to involve Czechoslovak firms in manufacturing to avoid defaulting on the performance of the contract, for a much larger fee, of course, than they could expect from their original client. In spite of all its efforts, the steelworks ended up having to pay a late performance penalty. Although Metalimpex coughed up half the loss, this was far from a case of personal liability as damages were paid from the budget of the state-owned company, so the economy absorbed the cost. Even conservative calculations suggest the total loss exceeded 50 million forints in the currency at the time. There is one thing we can be certain of in regard to this case: the secret commission from the sizeable profit of the West German firms ended up in secret bank accounts, but the case did not make it to the courts since the statute of limitations had expired by the time investigations were carried out.[239]

239 About the case in more detail cf. Borvendég 2018, p. 78–83

The CIA believed that pushing re-exports may also have been justified by Hungary setting itself the goal of broadening its relations with the third world. We have seen with regard to coffee purchases that the countries liberated from colonial rule were happy to welcome new trading partners, and rewarded them with preferential treatment, while Hungary did indeed use this to its own advantage. In June 1958, the information received by the American intelligence services suggested that Hungarian foreign traders purchased large quantities of raw materials (it is not specified exactly which raw materials these were) from several developing countries, including Guatemala, Mexico, Columbia, Morocco, Tunisia and Venezuela; quantities that exceeded the country's needs by far, enabling foreign traders to appear in western markets with goods they would have been unable to offer by relying on domestic resources only. Given that they wished to sell these goods below world market prices, there was plenty of demand. Hungarian foreign traders were always using their sensitive antennae to ferret out where they could make yet another re-exporting deal, so when staff at the Frankfurt office found out that a one-million-tonne stockpile of wheat from the previous year was still lying around in West German warehouses even though the next harvest was just around the corner, they realised they could buy a considerable portion of the stock at a favourable price, which could then be delivered to the estuary of the Nile in exchange for Egyptian cotton. The Americans were also aware that goods and raw materials purchased from different countries were often repackaged and their papers forged to allow them to be sold on the market as Hungarian goods. Hungarian traders allegedly did this with Argentinian meat, British coal and Japanese yarns.[240]

Hungarian foreign trade relationships were therefore highly dynamic, also with western countries, and Hungary's trained foreign traders were alert in exploiting the global market splitting in two as the world order changed due to the rise of the Iron Curtain. Hungarians were the big winners of the

240 CIA, FOIA, Economic Intelligence Report – The Role of Re-exports in Hungarian Foreign Trade. June 1959
https://www.cia.gov/library/readingroom/docs/CIA-RDP79R01141A001400100002-2.pdf
(Downloaded on: 28 August 2019)

intermediary trade built to support communist party companies: they spotted tremendous opportunities in scaling up re-exporting, and exploited this with such skill that the members of the foreign trade lobby that formed by the 1960s (who harnessed the potential in their West German relationships to extend their influence) effectively became the frontrunners of the Bloc even in the eyes of the capitalist West. The next level in broadening the opportunities of intermediary trade was to establish joint ventures. We do not know who was the first to come up with the idea to authorise joint ventures and when, but we have information from as early as 1960 that János Nyerges and János Fekete were considering the idea of setting up a joint western enterprise to engage in transit trade. Fekete "conducted negotiations with Deutsche Bank and the West German representative of a French bank in Vienna. It was the latter who told him that the finance minister, Comrade Rezső Nyers had rejected the idea. I [i.e. János Nyerges] responded to him that if we could broker a deal along commercial lines, I would have the opportunity to put this forward again in spite of the financial position."[241] This sentence suggests that Rezső Nyers, the father of the new economic mechanism, challenged the interests of the foreign trade lobby. This chasm adds further nuance to opinions on the causes of the failure of the economic reform. The processes initiated in 1968 were also aimed at decentralising the operations of industrial companies. However, cutting back centralisation brought increased power to the leaders of the trusts established during the 1960s. The interests of the industrial corporate lobby often conflicted with those of the representatives of foreign trade companies: the 'impexes' established after the nationalisation of international trade were granted monopolies to trade in the international markets, rendering both the distribution of finished goods and the purchase of raw materials their privilege. This meant manufacturing companies generally had no say in making the deals and in bargaining the terms of the contracts, and, consequently, had no insight into how the profit was used. Following the introduction of the economic reforms in 1968, the leaders of industrial facilities attempted to exert

241 ÁBTL 3.1.5 O-12344/13, p. 142–143 Report by 'Dóczi', 21 March 1960

pressure on the party leadership to restore their right to trade but were only partially successful. There were some strategically important companies, such as Videoton, that were granted foreign trading licences on an individual basis, but more often than not the secret service also had its fingers in the pie, and we can attribute such licences not only to economic considerations. In the case of Videoton, for example, the aim was expressly to facilitate embargoed purchases. According to a study from 1983, only 31 of the 450 industrial companies had licences to appear on the international markets in 1982.[242] Up until the late 1980s, 70 percent of total foreign trade was carried out by the foreign trade companies.[243] Almost immediately following the sovietisation of trade, the interest group that was small in number but wielded all the more power and which directed the re-export-based activity outlined here, began to rise. The members of the lobby included some of the leaders of trade firms and financial institutions, a few officials of the Ministry of Foreign Trade, and members of the secret service who supported them. The latter constituted a small group within MNVK-2.[244]

The head of the Foreign Trade Bank, István Salusinszky, who held this position between 1964 and 1980, played a major role in strengthening the lobby and extending its activities. During his term of office, he consistently took the position that the country's interests and the development of its foreign trade required foreign trade companies to be allowed to establish enterprises in the West, and to do so with the least red tape possible. The introduction of the new economic mechanism placed the supervision of Hungarian interests in the capitalist world with the MKB, but establishing a new company was still subject

242 Berkó 1983, p. 64

243 Tímár 1989, p. 63

244 The former military intelligence officer István Práczki describes the group within MNVK-2 that cooperated with the foreign trade lobby as follows in his memoirs: "A group I will refer to as a lobby for reasons of clarity was in control at the company. Its members comprise reliable persons who arrived or were sent from the apparatus and the political arm of the army and whose relationships went far beyond an affinity to communist and Soviet ideologies. Their aim is to appropriate tools of power and gain financial advantage, as well as to manipulate the company employing – given the nature of their activity – often illegal methods to serve its own interests." Práczki 2014, p. 134

to individual licensing, so Hungarian trading firms were unable to trade on the other side of the Iron Curtain in significant numbers. The ice was broken, however, in 1972, when the Ministry of Finance issued Decree 28/1972, which made it possible for foreign trade companies owned by the Hungarian state and holding monopolies to establish subsidiaries in western countries, and even with foreign capital participation. According to former Hungarian ambassador to Bonn, István Horváth, Hungary was not the first country to allow the establishment of joint ventures in capitalist countries. Romania adopted a rule to this end as early as 1971,[245] but traders did not take advantage of this opportunity as freely as their Hungarian counterparts did. It was not joint ventures established in the West that were typical in Romania, but companies founded domestically with foreign capital allowed into the country that were more popular as joint ventures. According to the American analysts, however, Romania never succeeded in making the country attractive to western investors, mainly due to its cumbersome bureaucracy and tangled legislation. Instead, the operation of companies was made even more difficult by the fact that the planned economy did not take into account the raw material requirements of joint ventures that constantly needed imports, which made production slower and more expensive. In addition, western owners were obligated to pay a portion of employees' wages in hard currency (the western hard currency paid under this title was obviously not intended to make life easier for factory workers but to relieve the state's hunger for hard currency), and also faced major difficulties due to regular disruptions to the energy supply.[246] (Unlike in Hungary, it was probably not the economic-financial elite in Romania, but the secret services, that controlled the establishment and management of these companies so they were probably used in different ways and for different purposes.)

Previous research seems to confirm that Hungary was a frontrunner in the Bloc in terms of establishing joint ventures and cooperation arrangements

245 Horváth – Németh 1999, p. 146

246 CIA, FOIA, International Economic & Energy Weekly, 31 October 1986 https://www.cia.gov/library/readingroom/docs/CIA-RDP97-00770R000100630001-3.pdf (Downloaded on: 31 August 2019)

with the West. To date, accurate information has been available regarding Austria, so it seems safe to say Hungary participated in almost two-thirds of cooperation agreements between the Soviet satellite states and Austria in the early 1970s.[247] It is even more revealing that Hungary had a stake in 33 of the 53 joint ventures operating in Austria and with links to Comecon countries.[248] Not counting Yugoslavia, which had the status of an associate member, the economic organisation had ten member states in addition to Hungary, so the other member states had two companies each in neutral Austria on average. These telling proportions are highly informative and indicate a fundamental difference in the operations and structure of the Hungarian economy compared to the other countries of the Soviet Bloc. It is hardly a surprise, therefore, that the American secret services also deemed it important to study this phenomenon.

Although the volume of foreign trade between Hungary and the United States was not substantial,[249] the legal change in 1972 quickly attracted the attention of the American administration. In 1972, János Fekete headed a financial delegation visiting Washington, where he announced that the establishment of joint ventures was soon to be permitted, probably with Hungarian majority ownership maintained in these firms.[250] Although the real upsurge in the establishment of joint ventures came after 1972, the American intelligence services were already stating at the time that, besides Yugoslavia, Hungary was playing a pivotal role within the Bloc in establishing joint ventures. They also added that there was a profound difference in legislation, as Yugoslavia allowed western companies to make investments within the country, while Hungary refused to do so.

247 Pogány 2009, p. 149

248 Ibid. p. 151

249 The CIA described the increase in the trade volume between the two countries between 1965 and 1972. The total volume of trade between Hungary and the US totalled 11.4 million dollars in 1965, which soared to 35.3 million dollars in 1972. CIA, FOIA, Intelligence Memorandum – Trading and Cooperation with Hungary, March 1973 https://www.cia.gov/library/readingroom/docs/CIA-RDP85T00875R001700050031-1.pdf (Downloaded on: 31 August 2019)

250 CIA, FOIA, Eastern European Intelligencer, 5 October 1972 https://www.cia.gov/library/readingroom/docs/CIA-RDP79B00864A001200020050-2.pdf (Downloaded on: 31 August 2019)

Indeed, under Hungarian rules, establishing a joint venture without additional authorisation was permitted only in western countries. It was not until 1977 that western capital was allowed to enter the country without prior authorisation. Consequently, the number of joint ventures with headquarters in Hungary was relatively low during these years. The CIA believed that Intercooperation Kereskedelemfejlesztési Rt. was the most significant of these companies. I have mentioned the company with regard to György Oblath, and its tasks included the establishment of various cooperation arrangements and the foundation of joint ventures. In fact, Intercooperation was not a joint venture itself, its owners included Hungarian firms, but it was established with the aim of opening up a pathway for western capital to Hungary. Let me return to this a little later. In March 1973, the CIA had a report drawn up on the extent to which the new opportunities were about to transform Hungarian economic relationships.[251] In addition to emphasising Hungary's leading role in this area within the Bloc, the document rightly pointed out that the significance of the new trend could mainly be put down to Hungary's hunger for technology, as they would be able to free themselves of trade quotas with the help of these firms. On top of this, the involvement of a partner with capital provided welcome relief for their financial troubles. At the time, American intelligence was not alerted to the fact that these companies immediately began to establish enterprises that could not be linked to the Bloc officially and consequently played a major role in circumventing the embargo.

By the mid 1980s, around 200 joint ventures with registered offices in a western country were registered in Hungary,[252] but we currently have no information on the number of offshore-type companies they established. The number of joint ventures with registered offices in Hungary fell markedly short of this figure: in 1980, we know of only three such firms,[253] although their

251 CIA, FOIA, Intelligence Memorandum – Trading and Cooperation with Hungary, March 1973
https://www.cia.gov/library/readingroom/docs/CIA-RDP85T00875R001700050031-1.pdf (Downloaded on: 31 August 2019)
252 Vajna 1987, p. 3
253 Haár 1980

number was beginning to grow in the first half of the 1980s. The appearance of these companies attracted the attention of western economic players, too.[254] American intelligence prepared a report on joint ventures in the Eastern Bloc in 1986, which put the number of companies operating under joint ownership in Hungary at 50.[255] This figure included the number of companies operating with headquarters in Hungary, and it must have been only a snapshot as we already know of 80 companies under foreign ownership operating in Hungary in 1987. That said, the data set published by the Americans is still intriguing as it allows us to compare willingness in the region to allow the entry of western capital. Based on the figures, Hungary comfortably outdid the trends in its sister countries. Even Romania only had ten joint ventures at the time according to the report, despite creating the opportunity for western owners to arrive in the country far earlier than Hungary, as we have seen. According to the information provided by American intelligence, Bulgaria had eight joint ventures with a capitalist background, Czechoslovakia had one such company and Poland had none at the time. Hungary was a particularly attractive target for investors as relevant legislation allowed companies to be established in a wide range of sectors of the economy from banking to tourism, while taxes were kept relatively low (20 percent in the first five years, then 30 percent). In addition, western investors enjoyed tax exemption in the first five years in certain priority areas, such as the energy and the pharmaceutical industries, and were granted considerable tax breaks thereafter. Let us also remember that they were able to purchase energy and raw materials at favourable prices, and the wages of Hungarian workers were determined based on the normatively low eastern wage rates, paid in forints, of course.[256] Overall, investors regarded investment conditions in Hungary to be more favourable than in neighbouring Yugoslavia, even though the economy had been much more open there since the 1940s, and western capital had been present practically throughout the entire period.

254 Ter Borg – Lafeber 1987

255 CIA, FOIA, International Economic & Energy Weekly, 31 October 1986 https://www.cia.gov/library/readingroom/docs/CIA-RDP97-00770R000100630001-3.pdf (Downloaded on: 31 August 2019)

256 Ibid.

The second half of the 1980s was about the transition from the socialist economy to capitalism. Large western companies and international financial groups watched the changes anxiously, and probably made efforts to influence the process. Hungary lost nothing of its appeal: its favourable tax environment and liberal regulation made it the most investor-friendly country in the region, and multinational big business was given the unmatched opportunity to take all profit made through its activities out of the country – at least this is what the American secret services believed made Hungary particularly attractive.[257]

The connections described above require further research and analysis, also from an economic point of view, that go far beyond the scope of this book. Yet, I feel it is important to outline the consciously created and built trade mechanism that was unique to Hungary and defined its role in the history of the Cold War. This role was by no means a minor one, particularly if we consider the size of the country. Its geopolitical position destined Hungary and the Carpathian Basin to be a bridge connecting East and West, and the political split of the world forced it to open a back door when the Iron Curtain was lifted. This was a necessity as you can have ideologies on the political level, but this cannot stand in the way of the economy, or money, to be precise. The flow of capital cannot be prevented, interests vested in financial power will prevail no matter what barbed wire stretches along the borders. The Soviet occupation brought the country's political, social and economic life to a grinding halt, but there was nonetheless a hidden dimension to the events where continuity can be observed. That is, the continuity between Nazism and Communism, capitalism and socialism. The activities of the Hungarian 'mafia' controlling secret Comintern money in Switzerland, or building close trade relations between former Nazi officers and their former prey, all suggest that, behind the scenes of politics, there was also another world driven by completely different motivations, and that exploring the latter is indispensable to determining the reality. The delusions of a global communist revolution necessitated unfettered

257 CIA, FOIA, Prospects for US Export to Hungary and Poland, 1 September 1989 https://www.cia.gov/library/readingroom/docs/CIA-RDP90T00103R000400410002-0.pdf (Downloaded on: 31 August 2019)

capitalist thinking, as the financing of left-wing parties was only workable on the basis of capitalist logic. While the vision of building socialism was imposed upon millions, the ownership of the assets of an entire nation was the privilege of the chosen few. Through nationalisation, Lenin's followers achieved the most extreme concentration of capital. In other words, they created the most extreme capitalism ever conceived without building any control into the system in the form of regulation of the market and competition, or even a real role for trade unions. The representatives of the political-economic elite of the socialist Bloc used their privileges to set foot in the capitalist world, where they found ample partners. Amidst the secret, tongue-in-cheek collusion of communist internationalism and capitalist globalism, Hungary was the link between the two as the 'Venice of the Cold War'. In other words, it was the trade link between various points in the world and paved the way for the cold and hard rules of money, and the movement of capital.

'FABULOUS' IN HUNGARY

Economic diplomacy

It was not in Hungary that Emil Hoffmann started to build his businesses. Bickenbach, Becher, Triska and the firms behind them had obtained monopolies on several important goods, so Hoffman decided to try his luck instead in the Romanian and Bulgarian markets he knew better, but he appeared in Budapest in the autumn of 1956 to become the main character in the Hungarian chapter of the Cold War game of spies.

On 25 September 1956, Emil Hoffmann and his wife visited Budapest at the invitation of Ferenc Vadász,[258] chairman of the National Federation of Hungarian Journalists. Hoffmann arrived in Hungary as a journalist and foreign trader, but the invitation was actually initiated by the Ministry of Foreign Affairs, and it was the Ministry that footed the travel expenses.[259] At the time, Hoffmann was already in continuous contact with the staff of the Hungarian Embassy in Berlin, particularly the senior officer Sándor Kurtán, who was head of the local Hungarian intelligence service. During the war, Kurtán sympathised with extreme right-wing ideas, so engaging in dialogue with a former Nazi cannot have been unfamiliar to him. Before 1945, Kurtán

258 The journalist Ferenc Vadász (1916–2009) held various positions at the Hungarian Workers' Party, and then the Kecskemét branch of the Hungarian Communist Party between 1945 and 1948. He worked at the daily Szabad Nép in 1949 and 1950, until he was appointed general secretary of MÚOSZ. He held the position until 1957. He worked as deputy editor-in-chief of Esti Hírlap between 1957 and 1959, and became a columnist at Népszabadság until 1984, when he retired.

259 ÁBTL 3.1.5. O-12344/1-a, p. 275 Note by the German unit, Central European Department, Ministry of Foreign Affairs, 26 September 1956

was a close friend of the leader of the local Arrow Cross Party organisation at Derecske. He frequently visited the local headquarters of the Party and participated in their work. In the autumn of 1945, some 'fascist' press was found at his place when his home was searched, and a procedure was launched against him. However, his party membership could not be proven, so the investigation was discontinued on the basis that: "He was among the young village folks who came into contact with the ideological leaders of the Arrow Cross Party during their rural campaign, not out of political conviction as such, but because there were no other intellectuals who cared about young intellectuals of simple backgrounds, so these young people developed relations with the leaders of this harmful movement without themselves wishing to."[260] This means that Kurtán was one of the reliable pillars of the Communist Party who easily swapped one extreme ideology for the other as Arrow Cross members turned communists. The Embassy in Berlin was only the first step in his career in diplomacy, as he later represented the Hungarian People's Republic in Helsinki and in Vienna. Kurtán's Arrow Cross past was allegedly not known to the party and ministerial bodies until just before his posting in Vienna in 1970, the circumstances of which were investigated by the Central Control Committee. As a result, he was withdrawn from the Austrian capital after only two years' service.[261]

The interest of Hungarian politics in Hoffman was linked to Hoffmann's deepening relationship with the West German Free Democratic Party (FDP) and to the fact that the Berlin office was building increasingly close relations with certain West German journalists from 1955 onwards.[262] This opening was a highly visible consequence of the détente in post-Stalinist world politics. The state of war between Hungary and West Germany ceased on 18 March 1955, opening up the opportunity to start institutional dialogue.[263] The resumption of official diplomatic relationships was greatly hampered by the hard line of the Hallstein Doctrine,[264] so the 'détente' took place through informal channels:

260 ÁBTL. 3.1.9. V-84811, 16/b Executive report, 25 February 1970
261 Fiziker, 2013, p. 41-42
262 Ruff 1998, p. 1113
263 Ruff 2007, p. 305
264 The Hallstein Doctrine was named after Walter Hallstein (1901–1982), who was the foreign

the representatives of Hungarian diplomacy established connections with West German journalists to use them as intermediaries.[265] In return for arranging meetings between the representatives of West German political parties and the officials of the Hungarian Ministry of Foreign Affairs, the journalists were allowed to attend these meetings and report on them.[266] Winning over the sympathy of the western press had already begun, although the benevolent treatment of the journalists of free countries temporarily turned frosty after the revolution was crushed and János Kádár illegitimately took power, but this disappointment was quickly set aside and enthusiastic reports were written about Kádár's maverick politics as early as the second half of 1957.[267] By the mid-1950s, Hungarian diplomacy was using western journalists sympathetic to the cause, so Emil Hoffmann's appearance around the Hungarian Embassy in Berlin is hardly surprising, particularly in the knowledge of Hoffmann's previous life, as we saw that the former Nazi turned businessman tried his

secretary of the Adenauer Government and established the hard-liner policy in 1955 that the Bonn administration would sever diplomatic relations with any state that recognised the German Democratic Republic. The Doctrine set the course for West German foreign policy up until 1969, when Willy Brandt took office.

265 Horváth & Németh 1999, p. 125

266 Ruff 2007, p. 306

267 Some western journalists (sympathetic to the cause) took a rather lenient tone as early as February 1957 when writing about János Kádár taking power. An agent of the Ministry of Interior had an interview with Swiss correspondent Otto Frei on 19 February 1957, right when the retributions hitting tens of thousands of people were unfolding in Hungary: "He underlined that he believes the situation would return to normal pretty soon, and that János Kádár's government would strengthen. He considered today's state of affairs already close to normal, adding that he personally holds János Kádár in high esteem, and believes him to be a very honest and upright man. I asked him what other journalists thought of this in western countries. Frei, who has extensive contacts, said the overwhelming majority of correspondents in western countries shared his views. They found it tragic that Kádár was forced to take office with the help of Soviet troops, they found Kádár's character as a person impeccable, and they respected him also for his unshakeable behaviour during his time in prison. Nobody who had seen Rákosi's prisons from the inside, said Frei, can ever go back to the old methods. Frei also voiced his concerns over whether János Kádár would be strong enough to push through his own ideas against the apparatus of old functionaries, and against the Stalinism he thought was being revived in the Soviet Union." ÁBTL 3.2.3 Mt-536/2, p. 20 Report on the conversation with Swiss correspondent Dr Otto Frei. Place and date of conversation: Berlin, 19 February 1957

luck over the first few years after the war mainly in the countries of the Soviet sphere of interest. In Berlin, he had access to all the embassies of the Eastern Bloc. It was the acquaintances of 'Fabulous' from the national socialist times, i.e. politicians who previously followed Nazi ideology and were mostly among the ranks of the Free Democratic Party (FDP), that seemed particularly useful to the Hungarian Ministry of Foreign Affairs.

The FDP was founded in December 1948 by the liberal parties of the Trizone. Its first president was Theodor Heuss, who was also the first person to hold the office of federal president between 1949 and 1959 after the Federal Republic of Germany was created in 1949. The FDP was a member of the coalition government up until 1957, but major conflicts broke out in 1956 between the liberals and the Christian Democratic Union (CDU). They parted ways, and the free democrats were forced into opposition after the elections the following year.[268] Hungarian foreign policy kept a close eye on the activities of the liberal party from the very beginning, since this was the organisation in the West German political arena they were able to cooperate successfully with even before establishing official diplomatic ties. Chancellor Adenauer and the Christian democrats behind him refused to negotiate with the countries in the Soviet Bloc, but the FDP saw a marvellous economic opportunity in the cooperation with the countries behind the Iron Curtain. Hoffmann believed that capitalist groups who were consciously readying themselves for the collapse of the socialist Bloc were behind them, and were making sure that their economic influence was beyond doubt in the region, just in case any of the satellite countries were able to break away from the Soviet sphere of interest, giving them an unbeatable advantage over other interest groups. Hoffmann pointed out as early as 1957 that Hungarian "industry underwent changes that rule out the possibility of ownership rights being restored, i.e. the pre-1945 owners getting their factories and banks, etc. back. The same goes for agriculture. It is therefore not in the interests or the aim of this German capitalist group to restore the country to its pre-1945 economic order in every respect.

268 Ruff 1998, p. 1115

He assumed, however, that the government would later sell and rent certain companies, allowing Hungary to gradually return to the capitalist economic system. And this is why this capitalist group, represented by Hoffmann, sees a tremendous opportunity in building economic relations between West Germany and the people's democracies, and in establishing a head-start over other western capitalist groups."[269] This means that West German capitalist circles already foresaw in 1957 that a change in the economic regime sometime in the future would not go hand in hand with re-privatisation, so they could therefore participate in the acquisition of state assets.

Emil Hoffmann acted as the intermediary between the FDP and Hungarian economic players and diplomacy, and undertook the role of journalist for the magazine *Industriekurier,* one of the leading business media outlets[270] of West German capitalists according to MNVK-2.[271] It is not surprising that West German, liberal economic policymakers had a preference for Hungary over the other countries in the region. As explained in the previous chapter, Hungary managed to build a significant network of trade nexuses after WWII, which created promising investment and cooperation opportunities. "The German free democrats commented on how much easier it was to negotiate with us Hungarians than with the Poles and the Czechs, let alone Germans from the GDR."[272] With active assistance from the ambassador to Berlin, Emánuel Safrankó and his colleague, Sándor Kurtán, continuous dialogue was initiated between the two parties by the summer of 1956, and a visit to Hungary was scheduled for the eminent leaders of the FDP for October 1956. One member of the two-member delegation was Kurt Haller and he was accompanied by Willy Max Rademacher.[273] Kurt Haller's name will be familiar. As a high-ranking Nazi officer, he was Veesenmayer's liaison in 1944 with the leaders of the Arrow Cross Party in Budapest, but his involvement in the Canaris intelligence organisation saved him from trial after the war.

269 ÁBTL 3.1.5. O-12344/1, p. 74–75 Confession by Ferenc Szolcsányi, 22 December 1959
270 ÁBTL 3.1.5. O-12344/1 p. 31 MNVK-2 note, 16 March 1959 For more on the magazine, see https://de.wikipedia.org/wiki/Industriekurier
271 Ruff 1998, p. 1117
272 Ibid. p. 1120
273 Ibid. p. 1121

Hoffmann knew Haller from the war, when their friendship started. Rademacher also had a Nazi record. After the war, he was one of the founders of the FDP and participated in national political life as chairman of the Hamburg branch of the party. As a member of the Federal Parliament, he was chairman of the transport committee from 1949 until 1957. During his visit to Hungary, he promised to use his position to seize the opportunities available to him to support the launch of air traffic between Budapest and West Germany.[274] We have no information on Rademacher's steps exactly, but it seems certain he was successful, because a note from 1959 written by an official of the Air Traffic Directorate-General shows that an agreement was made with Hoffmann's help in 1957 to allow the aircraft of the Hungarian Air Traffic Company (Malév) to fly through West German airspace.[275] In 1959, there was no direct air traffic between Budapest and West German cities as yet, so Hoffmann contacted the powerful people controlling Hungarian air traffic to start negotiations to conclude agreements between Lufthansa and Malév. In his proposal, Hamburg was indicated as the first airport between Hungarian and West German territories, but Hungarian officials were keener to start direct flights to Frankfurt instead.[276]

Frankfurt's privileged role can clearly be put down to the significant economic relations maintained by the trade office in Frankfurt, and this became important not only to Hungarian leaders but also German businessmen, who recognised the significance of the Hungarian mission to Frankfurt. To the knowledge of state security, Rademacher was the owner of one of the largest transportation firms in West Germany, so he had a personal interest in enhancing trade with the eastern countries. In 1956, he demanded in a public speech that the trade offices of the people's democracies in Frankfurt be granted consulship rights by the West German government.[277] For the leaders of the

274 ÁBTL 3.1.5 O-12344/3, p. 21 Information report, 16 December 1958

275 ÁBTL 3.1.5. O-12344/1 p. 51 Note for Comrade Rudolf Rónai, 8 April 1959

276 Hoffmann failed to achieve results in this respect, as Lufthansa's direct flight to Budapest started only in September 1967, when Kiesinger was Chancellor. See: Horváth–Németh 1999, p. 140

277 ÁBTL 3.1.5. O-12344/1-a 275/2 Note by the German unit, Central European Department, Ministry of Foreign Affairs, 26 September 1956

Hungarian economy and those who controlled foreign trade, Rademacher's person meant direct contact with the West German political elite: in the second half of the 1950s, the officials of the Hungarian Ministry of Foreign Affairs would frequently meet Rademacher to further deepen economic relationships between the two countries.

After the revolution was crushed, the Germans were somewhat hesitant, but economic interests overrode any legal and humanitarian issues. On 26 January 1957, Sándor Kurtán met Wolfgang Döring, manager of the FDP's election campaign, who said "as far as emotions go, I was with the freedom fighters, but, as a politician, I cannot agree to allowing the question to move in this direction, given the current international situation."[278] A few months after Imre Nagy's execution, Rademacher, representing the free democrats, visited Hungary again, as he had visited the country several times since 1956, and declared that they still relentlessly supported both enhancing trade relations between the two countries and also mutual diplomatic recognition.[279] Indeed, the capitalist interests behind the FDP did not want to abandon the eastern markets they could reach through Hungary, and Hoffmann was one of the journalists who actively contributed to the vindication of the Kádár administration. In August 1957, Sándor Kurtán reported that 'Fabulous' offered "to put together a 15-20-page information sheet for the FDP so that the speakers can use an 'objective' report in the campaign to counter the arguments of CDU speakers. CDU election campaign speakers are utilising Hungarian events to the full to verify their power politics. The FDP and the SDP [Social Democratic Party of Germany] are unable to fight this for the sake of their own foreign policy interests, because they have no insight into the actual situation here."[280]

The Hungarian top foreign affairs officials were pleased to welcome Hoffmann's idea, and arranged a wide-ranging programme for him to gain first-hand experience of the Hungarian reality. They arranged a meeting with

278 Ruff 2007, p. 315
279 Ruff 1998, p. 1131
280 ÁBTL 3.1.5. O-12344/1-a 275/17–18 Note about Dr Emil Hoffmann, the West German journalist's visit to Hungary, 10 August 1957

the influential head of division of the Foreign Ministry, János Nyerges, who is known to have been a key figure in building a network of foreign trade relationships since 1945, and to have played a major role in scaling up re-exporting, as well as in authorising the establishment of joint ventures. At this point, Nyerges had been working for the intelligence services for over a decade and had gained extraordinary skills both in diplomacy and peddling influence. Providing Hoffmann with 'appropriate' information was therefore hardly an issue. The German journalist, however, was an even more seasoned secret agent. I do not suppose he would let Nyerges pull the wool over his eyes, but their interests were the same. Hoffman was trying to find sponsors for his new business: in the meantime, he was dismissed from the *Industriekurier*, so he wanted to start his own magazine, focusing on East-West trade, but needed funds to do so. He figured that if he did a favour for the new Hungarian government by publishing articles in a number of German magazines claiming that the Kádár administration had chosen to walk the path of consolidation, he could rightly expect Hungarian companies to put an ad in the paper he edited on a regular basis in return. According to his calculations, he needed around 20,000 West German marks a year to support the magazine and a continuous supply of fresh economic news, news his rivals would of course have no access to. The deal was concluded. Through Kurtán and Nyerges, the Hungarian party promised to support Hoffmann's business, and in return "he will use the following as fundamental tenets when compiling the information material for the parties: he will deny that Hungary was a 'vassal' country, deny that no change had taken place compared to a few years previously, and will deny that 'freedom fighters' were executed. However, he will explain that the government is stable. People are disappointed by western countries. A lot of measures have been taken and a lot of changes introduced in the economy to increase living standards."[281] Hoffmann's round trip in 1957 – during which he met the general secretary of the Hungarian Chamber for Commerce and the press officer of the Ministry for Agriculture too, and was also allowed to talk to 'the man in

281 Ibid. 275/20

the street' – was a ticket for the German journalist and businessman to the Hungarian economic elite. This netted him acquaintances which enabled him to play a decisive role in Hungary's foreign trade until the mid-1960s, and he even acted with 'goodwill' to make sure that János Kádár became presentable in the eyes of the western public.

Hungarian foreign trade diplomacy attempted to approach parties in West Germany outside the FDP's circles, with much less success though. Officials started negotiating with the leaders of the organisation representing the interests of deported Germans, the Bund der Heimatvertriebenen und Entrechteten (BHE) and with social democratic politicians, at the same time as talks started with the free democrats, but they even found people amongst the Christian democrats who would listen to them. As mentioned previously, Kiesinger, a CDU politician in the 1950s and 1960s who equally had a Nazi past, and his right-hand man Todenhöfer, also had good relations with János Nyerges, and they too supported the Kádár regime, in spite of the news of the bloody retributions. When they commented to Nyerges on the martial law introduced in November 1956, warning the economic diplomat that they should keep quiet about applying this inhumane procedure if it was really necessary to use it (which means that they should not let news leak on executions based on martial law, ruling out the possibility of an appeal and a pardon), Nyerges replied that "these so-called outcries are not honest, and just as the Germans cannot be bothered by what democracy they have in, say, Spain, Iran or South Africa, and engage in trade with these countries happily, they should not allow themselves to be concerned by the domestic situation in Hungary either."[282] Nyerges and his fellow foreign affairs officials had no problem rejecting such criticisms as they were voiced by people who had previously assisted in genocide, so there was little moral justification for them to claim Kádár is usually seen as a pragmatic politician, but this opportunism had not been conspicuous before: the new power that turned its back on the 'sins of Stalinism' in paying political lip service in its rhetoric, but practically

282 ÁBTL 3.1.2 M-25447/1, p. 56 Report, 9 April 1957

toed the same line by going through with the retributions, showed continuity with the Rákosi era also in terms of its collaboration with the Nazis. The former Nazi politicians and officers who continued their public careers after the war were anti-American and fought for German unity regardless of which party they chose to resume building their careers in: the FDP or the CDU. It was this mindset that pushed them towards the representatives of the countries in the Socialist Bloc, who welcomed them with open arms. Their Anti-American feelings outweighed their anti-communist sentiments, so they found their way to the same page, even despite Kádár's vengeful politics.

Hungarian foreign trade diplomacy had a keen sense in approaching these politicians, and put great emphasis on helping them into influential positions as much as they could, instead of merely having partnerships with them. As secretary of the foreign affairs committee of the West German parliament, Kiesinger had good prospects of becoming minister of foreign affairs, and the Hungarian circles represented by János Nyerges actually counted on establishing direct relations through him with the leaders controlling West German foreign policy. In 1958, however, events took a surprising turn for the Hungarians when Kiesinger left the federal parliament to become prime minister of Baden-Württemberg. When Kiesinger was elected, Todenhöfer was hunting in Hungary, and Nyerges resentfully reproached him for not keeping their promise: "I told him the news that our mutual friend, Mr Kiesinger, was elected prime minister of Baden-Wüttemberg. I added the comment that he had promised me a West German minister of foreign affairs but delivered a Swabian prime minister."[283] Nyerges' sentences are startling, even if he exaggerated a little when describing the events. There are two possibilities: either the conversation really played out like this, in which case we are faced with the fact that Nyerges, who had been working as the éminence grise of Hungarian economic diplomacy for decades, had considerable influence on international politics too, and the representatives of West German capitalists relied on his services, or what he said was not true, and it was only a show he

283 ÁBTL 3.1.2. M-25447, p. 182 Note on a conversation with Mr Todenhöfer, no date indicated.

put on for his superiors by playing the part of kingmaker. We cannot know for certain, but given how Todenhöfer tried to explain things, we must consider the first possibility: "In his view, Chancellor Adenauer has dictatorial tendencies, ministers do not have independent roles with him around, and he also drives them completely insane. Kiesinger does not want to take this on. This is why he went for this post, because his chances of becoming chancellor a few years later when Adenauer dies are greater."[284] In 1958, this may have appeared to be an unrealistic hope, and Nyerges did not seriously consider this possibility, but he did acknowledge that there could have been some rationale behind the explanation. The point was that "given the current circumstances, Kiesinger's influence on direct foreign politics has diminished."

Todenhöfer and Kiesinger's strategy did eventually come through in 1966 when the former member of the Nazi Party became Chancellor for one term of office.[285] It may have appeared to the Hungarian party leadership for a moment that two decades of work had come to fruition, and the Hungarian foreign trade lobby had got itself a chancellor, to use Nyerges' slightly pompous phrase. Kiesinger did not enjoy wide-ranging support and popularity, and his international authority was not significant either, so it is not surprising he was trying "to build constructive political, economic and cultural relationships with European socialist countries to enhance his prestige. To set up these relationships, he would start with the Hungarian People's Republic as number one," said the assessment from 1966.[286] Gerhard Todenhöfer conveyed the greetings of Chancellor Kurt Georg Kiesinger to János Nyerges, the head of division of the Hungarian Ministry of Foreign Trade in person, and extended the Chancellor's invitation to a private meeting in January 1967, providing Nyerges with a separate vehicle in Vienna to make his journey more comfortable.[287] This was anything but a run-of-the-mill meeting in accordance with diplomatic

284 Ibid.

285 Kiesinger's political qualities are often likened to Angela Merkel's political aptitude regarding governing in a grand coalition, so Kiesinger's image as a politician is becoming increasingly positive nowadays. See: Olsen 2011; Mushaben 2016

286 ÁBTL 3.2.3. Mt-1072/1, p. 63 Report, 12 December 1966

287 Ibid.

etiquette. This indicates both Kiesinger's isolation in international politics and János Nyerges' pivotal role in German-Hungarian economic cooperation. Emil Hoffman recognised Nyerges' significance, too: in a note written a year later, he stated that "Nyerges is controlling western trade in its entirety."[288] He may not have been overly exaggerating.

The role of Frankfurt

Of all the capitalist countries, trade with West Germany was already far ahead from the late 1940s onwards, and still ranked fourth in the total volume of trade after the Soviet Union, Czechoslovakia and the GDR even in the mid-1950s.[289] It is therefore hardly a surprise that Hungarian party politicians were divided on extending trade relationships further. They were concerned that West German capital may acquire disproportionate influence in the Hungarian economy. This did not cause any headaches for the Ministry of Foreign Trade until the summer of 1957, when they were faced at the trade negotiations with a more reluctant position on the part of the German delegation regarding the purchase of Hungarian agricultural produce. They were trying to put pressure on the German partner by forcing Hungarian foreign trade companies not to purchase supplies from the West German market. They drew up trade policy guidelines for these companies, directing traders towards French, English, Italian and Swiss markets instead of Germany.[290] The instructions issued by the Ministry of Foreign Trade brought the desired results, and German imports fell both in total value and in terms of share: while 5.6 percent of total imports to Hungary came from West Germany in 1958, this decreased to 4.9 percent in 1959. The most striking results were recorded by Chemolimpex: whilst capital investments from West Germany accounted for 40 percent of

288 ÁBTL 3.1.5. O-12344/5 p. 189 Report, 29 January 1963
289 Ruff 1998, p. 1128
290 ÁBTL 3.1.5. O-12344/2 p. 87–188 Note to Comrade Baczoni, 23 November 1960

their total investments from capitalist countries in 1958 and the previous years, this share dropped to 20-22 percent in 1959. According to the cited report, the German partner did indeed respond to the restrictions: during the negotiations in December 1959, the Hungarian partner managed to raise the export quota for agricultural produce by 50 million German marks. The decision-makers at the Ministry for Foreign Trade told the companies that they were satisfied, but also warned them that, although there was no need to reduce the West Germans' share, they should make sure to maintain the levels achieved so as not to give West German firms too great an influence over the Hungarian economy.[291]

This endeavour proved unfeasible due to a number of circumstances that were either cumbersome or downright impossible to change. The most important of these circumstances was the historical-geopolitical one explained earlier, as a consequence of which many more people spoke German both in the industry and in trade than English or French. In addition to the language issue, Hungarian technical specialists were much more familiar with German technology, so they used German parts and components to begin with when designing a machine or device, rendering West German imports unavoidable. We should also add the famous German precision into the equation, which firms made even more attractive thanks to their flexibility and by providing favourable price and delivery conditions, as well as large-scale direct marketing given that most experts travelling to Hungary arrived from the western parts of Germany. Thanks to the uninterrupted business relationships between the two countries, more than 2,000 businessmen from West Germany visited Hungary in 1959.[292] The fact that 43 percent of the approved individual exhibitors at the Budapest Industrial Fair in 1960 were West German firms should give some sense of the influence of German industry. As a result, the Ministry of Foreign Trade called on the Hungarian Chamber of Commerce to reject the applications of 34 companies and invite companies representing

291 Ibid. p. 189
292 Ibid. p. 191

other countries.[293] The influence of German industry could not be curbed significantly, which is probably down to the lobby whose key figure was engineer János Sebestyén, then head of the Frankfurt trade office, who gained considerable influence later on.

Sebestyén was born in 1911 to a petty bourgeois family. According to his autobiography, he was awarded a degree as a mechanical engineer with electrical specialisation from the József Nádor University for Economics and Technical Sciences in Budapest.[294] In the autobiography he wrote in 1959, he described at length that he worked hard during university, because his parents, who later fell victim to the Arrow Cross terror, did not support their son's studies. He had a particularly bad relationship with his father, who fought throughout World War Two. From 1936 onwards, he actively participated in the activities of the illegal Communist Party and claimed also to have worked with Endre Ságvári. During the war, he was exempted from forced labour service as he worked as an engineer in a military factory. In 1945, Sebestyén became deputy head of department at the Budapest Electricity Works before obtaining a position at the Reparations Office in 1946. In November of the same year, he joined the Heavy Industries Centre, where he was first appointed head of division, then deputy general manager in 1948. He played an active part in kick-starting heavy industry, and in elaborating and implementing the aggressive industrialisation of the country. At his own request, he was transferred to the helm of the Heavy Industry Investment Company in 1949, where he oversaw the construction of the Dunai Vasmű steelworks and the city of Sztálinváros as a government commissioner. From 1954, he worked as a deputy minister on developing the country's power grid at the Ministry of Heavy Industry, and, on 9 October 1954, he became an official at the Ministry of Chemical Industry and Energy, led by Árpád Kiss.[295] "At my own request, I was relieved of my duties in May 1957 to be reassigned to lead the Frankfurt

293 ÁBTL 3.1.5 O-12344/2 p. 197 Instructions from the Ministry of Foreign Trade to the Chamber of Commerce, 3 March 1960
294 ÁBTL 3.1.5. O-12344/2 p. 178-180 János Sebestyén's autobiography, 6 August 1959
295 Bölöny 1978

office of the Ministry of Foreign Trade in West Germany,"[296] it says in his autobiography.

Until the outbreak of the revolution, most employees at the Frankfurt office, the central avenue of trade between East and West, were under the control of the Ministry of the Interior, and the majority of the staff and the foreign traders serving there left the building of the office during the days of the revolution and over the period afterwards, and refused to return home. The foreign trade office needed a new, reliable person, and although Sebestyén was a well-known and recognised representative of the Communist regime in 1957, he did not have any experience with foreign trade, so it is surprising he was appointed to a post that was so important from an economic policy perspective. According to the information of state security, Sebestyén requested that he be transferred to the Frankfurt office because he wanted to work at a place "where one can earn well, where one can build up savings."[297] If the historian tries to see logic underlying this less than obvious decision, he will presume that in Sebestyén they posted a person to West Germany, who, due to his previous positions, had a crystal-clear understanding of how developed Hungarian industry was, as well as its shortcomings and needs. They could not have found a more apt person to learn about German technology and purchase the required products. At the same time, the cited report of the Ministry of the Interior raises the possibility that this was probably also about something else. Sebestyén was allegedly related to Károly Junger;[298] it is unknown to what degree, but we do know that before his posting to Frankfurt, Junger was employed by the Heavy Industry Centre, where Sebestyén was his superior, so they must have known each other even if state security was wrong about the family ties. After Junger 'defected', Sebestyén was keen to get in touch with him and talk to the escaped trader before requesting his own transfer to Frankfurt. The intention of West German firms to enter eastern markets also provided major opportunities to benefit from bribery among the mediating traders, the system was well-known

296 ÁBTL 3.1.5. O-12344/2 p. 179 János Sebestyén's autobiography, 6 August 1959
297 ÁBTL 3.1.5. O-12344/2 p. 18 Report, 13 October 1958
298 Ibid.

to Junger, so he must have made very good money at the Frankfurt office. It is not beyond the realms of fantasy that Sebestyén did not arrive in Germany as the technical representative of Hungary, but as someone who wanted to join the foreign trade network. This is supported by the agent report that, in addition to reporting in detail on Sebestyén's illegal financial transactions, complains that "even though the office had to cope after the counter-revolution under extremely difficult conditions and with almost no assistance from home for a long time, as well as the defection of the head of the office and several employees and the hostile attitude of West Germany, the visiting leaders, Comrade Nyerges from the Ministry of Foreign Trade and Comrade Fekete from the Currencies Directorate reported home that the office is politically and professionally weak, ignoring our challenging situation. However, barely a few months after Comrade Sebestyén arrived in Frankfurt, Comrade Fekete was singing the praises of the office."[299]

Under Sebestyén's leadership, the Frankfurt staff was quickly replaced, filling the posts at the office with people loyal to him. The new arrivals included István Dévai, who later became a target of the state security investigation against Sebestyén, and fell like a pawn sacrificed on the chess board controlled by the increasingly powerful foreign trade lobby.[300] Dévai worked for military intelligence. The economic and financial network that I identify as the foreign trade lobby could not possibly have operated without help from the secret services in a single-party state dictatorship, of course. We have seen that the intelligence services were very much present behind the foreign trade companies on the other side of the Cold War battleground too, which also applies to the Soviet Bloc. The situation in Hungary, however, has particular characteristics in this respect as well. In the early days, over the first few years after the war, the trade network, which gave rise to the interest group that strengthened by the 1960s, was already beginning to take shape. By that time, however, all the players we can identify worked for state security, i.e. civilian intelligence, without exception, including Nyerges, Fekete and Junger. The

299 ÁBTL 3.1.2. M-15247 67/b Report, 27 March 1958
300 On the procedure against István Dévai, see: Borvendég 2018

Soviet background is something to be considered here as Nyerges' activities in Switzerland went way beyond the scope of activity of the Hungarians, and Fekete is also known to have been in contact with the NKVD.[301]

After the revolution, however, the situation began to change. It would require further organisational searches to establish why the control of the trade network (and the journalist line) got pushed more and more into the court of military intelligence after 1956, but the most striking change that could probably explain this was the Warsaw Pact, established in 1955. It appears logical that, after concluding the military alliance, the military organisations of the member states, including military intelligence, ended up under direct Soviet control and played an increasingly important role in the cooperation within the Bloc. This outlined economic network of nexuses was not built according to national competence and initiated by Hungary, but was clearly a conscious cooperation between the Soviet Union and the western countries, led by the US, which means it was probably easier to control this network through the military intelligence they had under direct control. Within the Warsaw Pact, the task of MNVK-2 was partly to focus on the military operational corridor along the Danube (mainly Austria and Southern Germany),[302] so the trade office in Frankfurt was an important base for military intelligence to begin with, given that there was no diplomatic representation in West Germany at the time where a military attaché could be delegated. Sebestyén's appointment was seen as an opportunity to take control of the office from the rival civilian intelligence. "It seems to us that this will be the first time the trade office has a politically appropriate person at the helm in Comrade János Sebestyén," a report by military intelligence reads, closing with the following: "What Comrade Sebestyén said made us understand

301 "…Yes, they did always find me [i.e. NKVD]. I, however, never did anything of my own accord. I have principles! There is no need for people to threaten me for me to tell them someone is carrying out hostile activities against them. I'll tell them that all by myself. To instruct me to do something like that, I just couldn't. But if I didn't like someone, I told them to look at that guy, he is up to no good. I was protecting our system wherever I could, simple as that," recalled János Fekete with regard to the Soviet secret services. Benda 1999, p. 111 NKVD: People's Commissariat for Internal Affairs, Domestic Commissariat

302 For the tasks and the organisational structure of MNVK-2 in detail, see: Magyar 2008; Okváth 2008

that they [i.e. the employees of the office] are being gradually replaced. We could join up here, if they are sending new people. The current members of staff were all involved in the work of the partner organisation."[303] This wording suggests that the people posted previously were all working for civilian intelligence, but the military intelligence service reckoned that the time had come to put its own committed sources in place in Frankfurt. They were successful in doing so: under Sebestyén's leadership, the proportions reversed, and we see that Sebestyén's tried-and-tested people worked for military intelligence over the course of the subsequent years. Endre Simon, the main player in the last chapter of this book, and Róbert Geist, who also belonged to Sebestyén's inner circle, were initially both part of the network of the Ministry of Interior, but they were taken over by MNVK-2 later on. The former government commissioner replaced not only the staff at the office with his own people, but also perceived competition from the work carried out by the trade representatives of different firms travelling to West Germany, so he was intent on making their activities impossible. In the summer of 1959, the head of the secretariat of the Ministry of Foreign Trade, Miklós Mátrai, reported to state security that deputy minister Jenő Baczoni had given instructions to review the trading licences of two trade agents whose activities Sebestyén had been strongly objecting to since the beginning of the year, also demanding they be barred from travelling to West Germany.[304] The pressure exerted by the head of the Frankfurt office put counterintelligence in a difficult position as the traders in question were liaisons of civilian intelligence, and state security understandably wanted to maintain the effectiveness and cover of its people from a secret service perspective. State security also believed that Sándor Makk and Pál Mészáros Attwel's activities gave cause for concern, so they deemed it necessary "to discuss with the handling agent in charge to take into consideration the structure of foreign trade when determining the two agents' line of work, and not to allow any activities that are not customary in foreign trade."[305] Sebestyén was better at lobbying than state security. Soon afterwards,

303 ÁBTL 3.1.5. O-12344/12 270/51 Trade office in Frankfurt, no date indicated.
304 ÁBTL 3.1.5. O-12344/2 25 Report, 10 June 1959
305 Ibid. p. 26

another state security agent who worked with the trade representative of the British Embassy in Budapest reported that Sándor Makk paid him a visit, asking him to help move over to the British area because "the German line was slipping out from under him".[306] Sebestyén's fight against the agents of civilian intelligence was successful, the question is what underlying considerations this fight was built on.

The coming period was characterised by the trade offices being divided between the two intelligence services: some belonged to civilian intelligence, while others fell under military competence. Investigating the different trade offices requires further research, but it seems certain that those operating within the competence zone of MNVK-2 (mostly in Milan and Rome, in addition to Frankfurt), and those where the staff included more soldiers because they were located in a war zone (such as the Middle East) primarily employed the people of military intelligence, and the dossiers revealed so far show that the influence of the foreign trade lobby was greater at these offices than elsewhere. The documents of the investigation in the early 1970s against the head of Metalimpex, István Dévai, a committed source of MNVK-2 mentioned previously, (who was one of the traders transferred earlier to Frankfurt by Sebestyén) provide a picture of the conflict between military and civilian intelligence, which can be attributed not only to professional rivalry, but was also intended to stem the illegal financial sources of the soldiers originating from trade.[307] This also implies that the fight between the different interest groups, or at least those opposing the foreign trade lobby, or who missed out on it, is reflected in the conflict between civilian and military intelligence. It is possible that the conflict was sharpened or exacerbated precisely by the changes the trade network was undergoing, which means that this network of nexuses was moved to military intelligence from their civilian counterparts after 1956.

By the late 1950s, a closed circle formed around Sebestyén in Frankfurt, which was supported by Nyerges and Fekete from back in Hungary. One of their most spectacular achievements was that they were able to increase and guarantee

306 ÁBTL 3.1.2. M-21284/1 p. 74 Note, 26 February 1959
307 For more details, cf. Borvendég 2018

the share of the big West German corporations (such as Siemens, Krupp and Mannesman) in the Hungarian market; their influence remained uninterrupted right until the late 1980s. Several deaths that have gone unexplained to this day can be linked to their circles, so exploring the other activities of the foreign trade lobby may put these deaths in a different light. György Lantos counted as one of Sebestyén's trusted people in Frankfurt.[308] When he was ordered home in 1962, Lantos committed suicide, the circumstances of which could not be fully resolved even by state security, their detectives used the word 'suicide' in quotation marks on more than one occasion. It was typical of the time that various rumours started to circulate immediately with respect to the reasons for the suicide. One such explanation blamed rising anti-Semitism for Lantos' suicide. Róbert Geist, who was also transferred to Frankfurt under Sebestyén in 1962, received an anonymous letter after Lantos' death that said: "The situation here is deteriorating day by day for folks like us. Everyone knows that poor Lantos was simply harassed to death. For a Jewish man, no matter how reliable and loyal a communist he may be, the tiniest, most unfounded shred of doubt is a disaster, because they will make a mountain out of a molehill. They are not killing us openly, of course, like the Nazis did. But at this rate, we may just all be slowly starved to death in the end. Any of us still in a leading position is careful not to burden himself with the problems of the rest. It's every man for himself. But if the new worker and peasant cadres, the young goys replacing us do actually replace us all, then it will not be only us paying the price, the time will come, at the end of the day, when it will be their turn."[309] Among the rumours flying around, Emil Hoffman's version seems to be the most reasonable, namely that Lantos had been bribed by several western companies, which put enormous pressure on him that caused him to take his own life when ordered back home.[310] Hoffmann's statements also show that he was probably in on other purchases, possibly smuggling that looked illegal. 'Fabulous' mentioned

308 ÁBTL 3.1.5. O-12344/2 p. 181 Information report, 3 February 1958
309 ÁBTL 3.2.1. Bt-751/1 p. 40 Anonymous letter from Rome, with the initials B. K. in lieu of a signature, 16 April 1962
310 ÁBTL 3.1.5. O-12344/4 p. 28 Executive summary, 31 March 1962

to several of his acquaintances that Lantos acquired gold through him for 35 percent less than the market price,[311] but the investigation also revealed that Lantos and Sebestyén were also the German businessman's partners in a deal worth 1.5 million deutschmarks that was not further specified by state security.[312] According to Nyerges, Hoffman had suspicions that the Hungarian trader was blackmailed and chose to end his life himself for this reason.[313]

The other death linked to Sebestyén's circles is much less well known, and has remained an unsolved mystery to this day. He was György Péter (Pikler), former head of the Central Statistical Office (KSH), who died sometime later, in January 1969, in a hospital ward.[314] He allegedly stabbed himself to death, but a lot of circumstances emerged with respect to his death that certainly question the likelihood of suicide. The different documents that tried to come up with an explanation for Péter's death fail to mention an interesting piece of information that could be significant. György Péter's brother, Ferenc Pikler, was a member of the interest group around János Sebestyén. Pikler was a member of the illegal Communist Party in the 1930s, and, following the instructions of the Party, fled to France in 1938 to continue his work at the movement there.[315] He had to leave the country after his brother was arrested and sentenced to 15 years' imprisonment, so Ferenc Pikler was likely to be on the radar of the authorities because he was one of the most active agents of Red Aid.[316] "He continued the engineering studies he started at the Technical University at the Sorbonne, while his activist work shifted to the actual battlefield, and lasted

311 ÁBTL 3.1.5. O-12344/3, p. 53 Report, 12 October 1961
312 ÁBTL 3.1.2. M-23749, p. 101 Report, 13 May 1964
313 ÁBTL 3.1.5. O-12344/6, p. 192 Report, 1 February 1963
314 For more on the investigation against György Péter and his death, see: Krahulcsán 2019
315 ÁBTL 3.1.5. O-15829/1, p. 51 Executive report, 23 June 1969
316 Hungarian Red Aid was the Hungarian branch of the Comintern network, and it was officially established to support the families of the arrested or executed leaders of the 1919 Hungarian Soviet Republic, as well as the families of the imprisoned members of the Communist Party. In actual fact, it operated as one of the most important cover organisations for the international Bolshevik networks. Gábor Péter, for example, arrived in Moscow in 1932 to participate in the congress of Red Aid, where he is likely to have been recruited by the Soviet secret services. Cf. Müller 2017, p. 67–80

until Paris was liberated."[317] He returned in 1945 and held leading positions at various organisations, working first at the Ministry of Reconstructions, then at the Reparations Office.[318] Pikler actively participated in nationalising the electricity industry and in bringing power to villages. His acquaintance with Sebestyén dates back to these times. Internal reckoning caught up with Pikler, too. He was in prison between 1951 and 1954, after which he worked at the Ministry of Heavy Industry together with Sebestyén and Endre Simon, whom we mentioned earlier and who became Sebestyén's right-hand man in Frankfurt. In 1957, Sebestyén and Pikler decided together to request a posting abroad: As revealed earlier, Sebestyén was looking for a lucrative job at a trade office, while Pikler wanted to go to Vienna.[319] He used his acquaintances to be transferred to the International Atomic Energy Agency, established in 1957, where he represented Hungary until 1962. According to state security, he was also involved in smuggling during the years of service, using his Mercedes bearing diplomatic plates to carry out his illegal activities, while "he gave no assistance at all to the competent Hungarian authorities regarding scientific fields and fields important for other reasons in spite of repeated requests and his promises" or it seems at least that he was not willing to cooperate with the secret service of the Ministry of Interior.[320]

In 1962, the Romanian secret service warned Hungarian counterintelligence that a Vienna-based Zionist organisation was involved in large-scale smuggling,

317 Remembering Ferenc Pikler Magyar Nemzet, 27 June 1979, p. 7

318 In 1948, Ferenc Pikler wrote a study on the reparations Hungary was obligated to pay after WWII. He wrote the following on the disproportionately and unfairly great burden that was weighing down on Hungarian society and the looted and destroyed economy: "After the siege, when we stood here stripped of our national assets and bombed out among ruined factory buildings without functioning machinery, many people believed that Hungarian industry could never be revived. Reparations were the first impulse at the time to kick-start production and thus also the economy as a whole. It was the reparations that gave companies the opportunity, and forced them at the same time, to repair their buildings and machinery quickly, and to start production. It was the reparations that forced companies and the authorities alike to rebuild foreign trade relationships without delay to purchase raw materials." Pikler 1948, p. 2

319 ÁBTL 3.1.5. O-12344/2 p. 18 Report, 13 October 1958

320 ÁBTL 3.1.5. O-15829/1, p. 51–52 Executive report, 23 June 1969

unlawfully delivering mostly coins and similar assets to Vienna. Nothing material happened until 1968, when the Ministry of Interior launched investigations against a number of suspects. Among many others, Ferenc Pikler's brother György Péter, who had been illegally delivering all sorts of valuables in his own car from Budapest to Vienna, was also investigated. A few weeks after the arrest warrant was issued, György Péter died in hospital, where he was being treated for the heart attack he suffered previously. Several theories have been proposed regarding his death, since the circumstances did not suggest suicide. According to one theory, he fell victim to the wave of anti-Semitism that rose following the outbreak of the 1967 Arab-Israeli War. Because he collected precious metals and coins for Zionist circles, the Hungarian secret service regarded him as an Israeli spy. According to another common theory, he was framed by the opponents of the new economic mechanism introduced in 1968. Péter was a strong opponent of the orthodox, Muscovite line, and favoured reforms after coming face to face with the harmful effects of the command economy. In addition to Rezső Nyers, he can be regarded as one of the fathers of the new mechanism. Both explanations seem to be logical, but neither in itself is sufficient to order a liquidation, not to mention the fact that Israeli interests were continuously represented in foreign trade right until the late 1980s, which means that Péter's death did not rock the so-called Zionist line at all, and it was not merely a single person behind the new economic mechanism, but an entire team that was able to pave the way for the newly introduced reforms for years to come. There is, however, one angle that appears important, but is ignored by everyone. Interestingly enough, neither the investigation nor subsequent assessments connected his death to his brother's activities. Investigation documents show that György Péter's relationship with the smugglers' network in Vienna dated back to 1958,[321] but there is no indication that his brother, Ferenc Pikler, used his diplomatic immunity to commit similar crimes between 1958 and 1962. It seems unlikely that the detectives did not consider trying to find connections between the concurrent activities of the brothers taking place along the same route, but the surviving documents suggest they did

321 ÁBTL 3.1.9 V-155912/8, p. 172 Information for the Government on the case of Dr Péter, György, 23 January 1969

not. No information was gathered on Pikler, no investigation was initiated, and he is not even mentioned in György Péter's investigation materials, which also implies that the smuggling of precious metals and coins was used as an excuse, a cover story to corner or dispose of him. If this is what really happened, the theory of the Zionist conspiracy seems to be refuted, because if anti-Semitism had been one of the underlying motifs, Pikler should have been interrogated during the investigation. Who knows why Péter had to be silenced? What could he possibly know that was so dangerous to some people that they did not shy away even from murder? It was previously established that Rezső Nyers, as finance minister, was trying to curb the deals brokered by János Fekete and János Nyerges back in 1960, when the banker and the foreign trade official wanted to establish intermediary firms to carry out re-exporting transactions. The underlying principles of the new economic mechanism went against the interests of the foreign trade lobby on several counts, because they were intended to decentralise the operations of industrial companies and expand their independence and competence. It seems possible that, through his brother, György Péter had access to information on the interest group wielding increasing power that could have been used against them to the benefit of the reformist economists. This is just another theory, but is not, however, unrelated to those seeking to find the key in the background to the 1968 reforms. When György Péter died, Ferenc Pikler was already head of division of the National Technical Development Committee (OMFB) established by Sebestyén. Due to the investigations against Hoffmann, the telephones of the institution were tapped and the offices of the leaders were bugged, which is how they discovered that Pikler was truly terrified following his brother's mysterious death. His telephone conversations became increasingly shallow as he believed civilian intelligence was sniffing around him.[322] His fear is understandable, but it does not give an answer to the definitive question of whether he was afraid because he felt at risk due to the smuggling and it seemed logical to him that investigations would be extended to include him, or because he knew exactly who killed his brother and why.

322 ÁBTL 3.1.5. O-15829/1, p. 52 Executive report, 23 June 1969

The powerhouse of industrial espionage

János Sebestyén did not spend long in Frankfurt. He returned home in August 1959, when an opportunity opened up for him that he simply could not pass up. An institute then known as the General Technical Council was being set up as the main advisory body to the Council of Ministers on technical matters. A member of the Committee for the National Economy of the Hungarian Socialist Workers' Party (MSZMP), István Szurdi, requested information on Sebestyén from state security as he was a potential candidate for the presidency of the new institute. At the turn of 1959–1960, the Ministry of Interior was still unable to provide any material information on Sebestyén, but over the next few months, as the investigation against Hoffmann began, it turned out that one of the key Hungarian partners of the West German trader who frequently visited Hungary was none other than the future head of the general council.[323] Sebestyén knew Emil Hoffman from Frankfurt, "I helped him to the fullest extent possible, and was not averse to providing information considered confidential,"[324] said 'Fabulous', expressing regret regarding Sebestyén's return to Hungary because he was unable to cooperate with his successor, József Buzás, the former general secretary of the Chamber of Commerce, anywhere near as well. We know that Hoffmann had relations with MNVK-2 in the second half of the 1950s, allegedly passing on information to them. After Sebestyén returned to Hungary, military intelligence suddenly realised that Hoffmann also had commitments to the British secret services, so they informed counterintelligence to keep tabs on 'Fabulous' whenever he travelled to Hungary. Although we cannot verify why the attention of state security was called to Hoffmann, or if there was a reason his case was not referred to civilian intelligence, but it was due to this surveillance that counterintelligence became aware of Sebestyén's suspicious relationships. State security later reckoned it was its duty to inform higher party leadership

323 ÁBTL 3.1.5. O-12344/2 p. 92-93 Report, 15 March 1961
324 ÁBTL 3.1.5. O-12344/7-a p. 47 Executive report, 4 March 1963

of the new information it had acquired after all, just in case it could prevent Sebestyén from being appointed. The agency was about to inform Antal Apró, Deputy Chairman of the Council of Ministers, Jenő Fock, secretary of the Central Committee for Economic Policy, and Béla Biszku, Minister of Interior, about the activities of Sebestyén it believed to be hostile.[325] This information report has yet to be found, so we cannot know for certain whether it was prepared to begin with, but the Ministry of Interior was relieved to see that it was not Sebestyén who was eventually appointed to head the OMFB, but former minister Árpád Kiss, and Sebestyén was 'only' given the position of his deputy.[326]

After returning home, Sebestyén became head of the Technical Secretariat of the National Planning Office, from where he coordinated and organised the establishment of the OMFB. He laid the foundations for the network of relationships he used to build cooperation frameworks with the industrial companies responsible for the technological development of the country, with preferential treatment given to West German companies, of course. Through their relationships built during their stay in Frankfurt, Sebestyén and his acquaintances paved the way for various West German firms to enter the Hungarian market, and to further strengthen their position later on. From 1962 onwards, opportunities increasingly opened up once the OMFB had been given the appropriate funds. Sebestyén was trying to truly justify the need to build industrial cooperation with capitalist countries to the competent authorities. As the West German firms they had a relationship with since their stay in Frankfurt were continuously making inquiries, Sebestyén's leadership saw attempts to ensure bids by these firms were given preferential treatment, particularly when the technical and economic conditions were identical,"[327] state security reported on the Frankfurt team. Based on our current knowledge, we can safely say that they did not overstate the significance of this meddling. Although it was not Sebestyén who was appointed to head the Committee, the actual control was in Sebestyén's hands. According to Hoffmann, Sebestyén told him about the plans to set up the committee when

325 ÁBTL 3.1.5. O-12344/2 p. 93 Report, 15 March 1961
326 ÁBTL 3.1.5. O-12344/7-a p. 50 Executive report, 4 March 1963
327 ÁBTL 3.1.5. O-16586/1. 21 Report, 31 October 1973

still in Frankfurt, at a time when the decision was not only secret, but had not yet even been made. What is more, the German businessman even believed he knew Sebestyén had no intention of accepting the position of president, but was expressly trying to land the deputy's office.[328] The top man in an institute that also plays an important role in international relations is obviously kept busy by diplomacy, representing the office and plenty of public appearances, so making actual, operational decisions and controlling the work would be left to the deputy. This is why Sebestyén consciously opted for the second rung of the ladder. Throughout his term of office until his retirement in 1988, he put a lot of work as the deputy head of the OMFB into increasing imports of West German industrial products: "Even though he moved to an area other than foreign trade, he is very actively involved in various foreign trade negotiations and travels to western countries on a regular basis to independently make agreements on business deals. Sebestyén has relationships with several high-ranking persons in foreign trade and industry. It is through these relations that he turns his foreign trade ideas into reality."[329] All this, of course, was part of his official duties, the hysterical suspicions of counterintelligence appear less than justified, as it was the OMFB's responsibility to ensure availability of the technologies required for the technological development of the country. His tasks included elaborating an economic development plan for the country, coordinating technical and technological research, and acquiring advanced technologies, so it is fair to say that the institute became the most important customer for technical-scientific intelligence. The OMFB budget was rather substantial, the technical development fund allocated to the institute was raised every year, so it had a budget of 300 million forints and 5 million US dollars by 1973,[330] which provided ample opportunities to select trade partners and purchase the desired technologies.

In terms of acquiring various technical specifications, West Germany was the target country of choice, and not just because it was at the vanguard of using the most advanced technologies as Europe's leading industrialised nation, but

328 ÁBTL 3.1.5. O-12344/2 p. 93 Report, 15 March 1961
329 ÁBTL 3.1.5. O-12344/3, p. 72 Summary Report, 28 November 1961
330 ÁBTL 3.1.5. O-15829/1 Report, 20 March 1974, p. 119

also because private companies were willing to hand over any embargoed items to the Hungarians – subject to varying degrees of haggling.[331] This is demonstrated by a memo from the Ministry of Foreign Affairs at the time, which states that "the Germans have not been overly strict in adhering to the embargo restrictions."[332] (In the previous chapter, we learned that the embargo did not pose insurmountable difficulties prior to 1945 either.) This obliging behaviour was also maintained later on, so Hungarian intelligence services and technical experts could rely on help from the Germans in obtaining embargoed products one way or another. In view of this, giving preferential treatment to German industry seems fully justified, but Sebestyén became involved in a number of alleged cases of corruption over the coming years, which prompted state security to relentlessly investigate the leadership and staff of OMFB, but Sebestyén was considered too big a fish for them to get a real handle on him.

During the investigation against Hoffman, information continued to arrive that Sebestyén was applying strong pressure on foreign trade companies to buy Siemens products. This put Siemens' rival AEG, also trying to open up towards the eastern markets, on the back foot by leaking information that counted as business secrets to manipulate price negotiations. The head of the eastern division at Siemens was a man with some Hungarian background called Hans Müller, who was fluent in Hungarian and very familiar with the majority of the Hungarian foreign trade elite. He was in also contact with Hoffmann. Their acquaintance dated back to Hitler's time as Müller was also an SS officer during the war.[333] The chief engineer of Siemens, Viktor Fritz Sieglohr, who worked as an engineer for the research institute carrying out the infamous Peenemünde rocket developments during the war, often visited

331 ÁBTL 3.1.5. O-16586/1. 146 Károly Bárd hearing, 2-26 April 1974 Károly Bárd (1924–2012), former state security officer, then insurance lawyer. After 1989, he worked at the same legal practice as Miklós Bauer, who was also his colleague at the State Protection Office previously.

332 Lázár 2005

333 ÁBTL 3.1.5. O-15829/1, p. 65 Evaluation report, 2 September 1968

Hungary.[334] Besides them, Karl Heinz Hoffman, a West German citizen of Polish origin, must be mentioned among the persons who represented Siemens and counted as an OMFB contact as he also spent considerable time in Budapest as Sebestyén's guest. During World War Two, he also served on a U-boat in Hitler's forces.[335] His name also came up in connection with the West German secret services and was included on the list of people who had connections to the BND, i.e. German intelligence, which was provided by the Romanian partner organisation.[336] Counterintelligence was eyeing this network of contacts with suspicion and found it very dangerous not to have insight into exactly what was going on around it as the operational presence of the Ministry of Interior was not addressed. In other words, the level of agent presence at the institute was insufficient.[337] For years, they observed that the writings of Emil Hoffmann, among others, regularly contained data and information on the Hungarian economy that state security deemed to be sensitive at the very least, but were unable to catch the source of the leaks. Under the cover name of 'Judit Kövesi', they managed to recruit a secretary at the OMFB, but the lady did not belong to the innermost circles, so her reports painted only a vague picture of the leaders' activities. She reported, for example, that the management of classified documents did not comply with the TÜK rules on the handling of secret documents, and it was therefore possible for sensitive information to end up with unauthorised persons: "Classified materials, mainly Comecon documents, are not managed according to the TÜK rules. To her knowledge, excerpts are made of several Comecon documents without any specific authorisations, and members of staff keep documents in their safes for extended periods of time. Most recently, it was only after lengthy arguments that Comrade Árpád Kiss returned Comecon documents he had handed over to János Sebestyén, but the documents were held by Dr Géza Schmőr and Simon."[338]

334 Ibid. p. 66
335 ÁBTL 3.1.5. O-15829/7 p. 194 Note, 4 August 1972
336 ÁBTL 3.1.5. O-15829/1, p. 99 Evaluation report, 20 September 1968
337 ÁBTL 3.1.5. O-15829/1, p. 70 Note, 7 February 1964
338 ÁBTL 3.1.2. M-23802, p. 36 Report, 6 December 1962

The Comecon-related information passed on by Hoffmann probably played an important role in making the countries of the Eastern Bloc popular with western firms. More on that in the next chapter, but the role of the manipulative leaks that influenced the competition of the industrial companies probably went hand in hand with an intention to cause financial damage. The Siemens-AEG conflict mentioned earlier, not unlike the competition that also later intensified against IBM, may not have always ended without harm to the interests of the Hungarian economy. In 1961, before the OMFB was officially established, the general manager of AEG, Klaus Lieske, publicly stated that their offer was much more favourable than the deal one of Hungary's industrial companies eventually concluded with Siemens. With this in mind, they will do everything they can next time around to expose János Sebestyén, who they believed to have been behind the manipulations, by offering even bigger discounts to the Hungarian partner.[339] We do not know if they indeed tried to set a trap for him, but we know for certain that they failed to achieve overwhelming success and were unable to make significant inroads into Siemens' monopoly. A report from two years later shows that the representatives of AEG managed to find an internal source who shared some information with them that was considered to be commercial secrets, and they learned that their original offer was cheaper than the one by Siemens even to begin with. After this, they refused to offer further discounts to the Hungarian party,[340] and even had to come to terms with the fact that stricter requirements were set for them than their rivals in certain cases.[341]

339 ÁBTL 3.1.5. O-12344/8, p. 172 Report, 8 June 1961
340 ÁBTL 3.1.5. O-12344/7 p. 232 Report, 30 July 1963
341 ÁBTL 3.1.5. O-12344/7-a p. 136 Report, 10 July 1963

Sympathetic journalism

Emil Hoffmann's second official visit to Hungary was postponed due to the outbreak of the revolution. At the time, the new political situation presented the Revolutionary Worker-Peasant Government with new challenges, as legitimising its power both in Hungary and abroad became a key concern. Over the year after the revolution, seven books in German were published about Hungary in West Germany alone, which unanimously struck a condemning tone on Kádár's seizure of power on the back of Soviet tanks – at least this is what was revealed by a report by the Hungarian Embassy in Berlin.[342] In August 1957, Hoffmann promised, as we indicated earlier, to write an 'objective' report on the situation in Hungary for the leadership of the FDP, a promise he kept, and that resulted in the Hungarian leadership giving him a vote of confidence for the future. Hoffmann arrived in Budapest in November 1957 with an offer to write a book on the situation in Hungary. He had previously attracted the attention of the secret services of the Eastern Bloc by publishing a book entitled *West-Ost-Handel im Zwielicht?* (The Twilight of West-East Trade) in 1955, which was met with approval from the Soviets. The leaders of the Communist superpower reckoned that the book painted a favourable picture of the internal conditions of Socialist countries, promoting deals on the other side of the Iron Curtain for western firms. It was generally believed that this book turned the general view of the Socialist Bloc around, although we have learned in previous chapters that there were already companies and persons active prior to 1955 who could not care less about grand political ideologies and Cold War conflict. Against this background, the Kádárian apparatus was happy to welcome a book expressing similar views that would specifically focus on the Hungarian perspective. The Foreign Affairs administration even assisted him in collecting

342 ÁBTL 3.1.5. O-12344/1-a 275/31 Report by Egon Forgács, embassy adviser, 30 November 1957.

information. They organised Hoffman's meetings and visits, while he was also allowed to consult the representatives of the Hungarian Telegraph Office, the National Planning Office, the Central Office for Statistics and even the Patriotic People's Front. In spite of all this, the book was not written over the following two years as no publisher dared print such a book on the grounds that the political environment was not yet ready for such a 'positive' piece of writing to be published.[343] The government could have benefited hugely from the book, however, since Hoffmann listed topics in the draft of the book that would have supported Kádár's narrative during the retributions. For example: 1. "The reasons and consequences of the revolution, western and eastern intervention," which means he would have spread the idea that the revolutionaries attacked the socialist regime with external imperialist help, thereby justifying even the Soviet (eastern) intervention. 2. "Nagy's lost aura," which suggests he had intended to communicate to western countries even before Imre Nagy's execution that the prime minister illegally removed from his office had also lost social support in Hungary. 3. "Kádár's difficult path," where the title itself is designed to evoke sympathy for a man grappling with difficulties. 4. "Western incitement as a political boomerang," where the title suggests the anti-Kádár propaganda from the West, mainly arriving through Radio Free Europe, actually backfired in Hungary as it allowed society to close ranks behind its leader. 5. "UN recipe gone sour," which criticised the UN committee discussing the Hungarian case. The following chapters would have clearly detailed the positive effects of seizing power: 6. "The demands of the Hungarian people met," which sounds very much like an outrageous lie in 1957, when bloody revenge started to be exacted in the wake of the failed revolution. 8. "Emigrants without prospects," which was in line with the amnesty promised by the regime, an attempt to coax some of the emigrants into returning, hammering the message home that trying to fit in and integrate would be a futile attempt for Hungarians trying to carve out a new life for themselves in western countries. And the book was to end as

343 ÁBTL 3.1.5. O-12344/1-a 275/32 Note, 6 April 1959

follows: 9. "The future of Hungary has already started."[344] Considering the topic of the book, it is not surprising that Hoffmann was unable to find a West German publisher for his manuscript. I would even go as far as to say that the former intelligence officer well-versed in world politics cannot really have believed anyone would be willing to publish this title. In my view, the draft was only necessary to gain him access to Hungary. The book, therefore, was not published, but a few years later Hoffmann did write one that ruffled a few feathers in Hungarian party and government circles, more on that later.

Confidence in Hoffman weakened slightly by 1959 due to his unfulfilled promise, and also military intelligence handed over intelligence documents on him to counterintelligence at about the same time, warning that the West German journalist and businessman may have been recruited by hostile intelligence services. Christened 'Fabulous' at that time, Hoffmann's movements were under surveillance from this point on and his contacts were investigated. In addition to Sebestyén and Nyerges, Hoffmann also met journalists on a regular basis: MÚOSZ, at whose invitation he arrived in Hungary in 1956, assigned a journalist, Ferenc Szolcsányi, to accompany him, and it was not long before state security found Szolcsányi. Every time he later visited the country, Hoffmann contacted Szolcsányi, who was assigned the task in September 1956 of accompanying and entertaining the German guest on any official and unofficial trips. When the Ministry of Interior launched its investigations, Szolcsányi was an obvious target as it was easy to put him under pressure for his activities in 1956. In November 1959, he was arrested for having belonged to the 'revisionist' wing of the journalist federation during the revolution. He was interrogated and told he could only escape prison if he signed up for them, undertaking to report on Hoffman's activities. From this point on, Szolcsányi undertook to satisfy the hunger of state security for news under the cover name of 'Csepeli'. Hoffmann, however, was a shrewd man and Hungarian counterintelligence was not really able to get a handle on him. Following the arrest of her husband, Szolcsányi's wife told the German businessman not to expect his guide next time around as

344 ÁBTL 3.1.5. O-12344/1 p. 68 Note, 8 November 1957

he was in custody. After his release, 'Csepeli' attempted to resolve this unplanned revelation against him by writing Hoffmann a letter in guarded language that he had been released, and informing his German partner to feel free to contact him next time he visited Hungary.[345] Hoffmann did indeed contact Szolcsányi, the Ministry of Interior was relieved to see that the cover of their man had not been blown prematurely, but documents also suggest that 'Fabulous' was probably well aware of how his acquaintance avoided prison. He never asked Szolcsányi for any written documents, which could have proved his espionage to state security, but civilian intelligence also spotted that from then on that Hoffmann refused to talk to Szolcsányi anywhere other than Szolcsányi's flat, which went completely against any reasonable conspiracy rulebook. The flat was bugged of course, and putting the bugs in place had required complex organisation to remove every member of the family, including the journalist himself, from the flat for a few hours to do the work.[346] The operation, however, failed to yield the desired results as no truly compromising remark was made during these conversations, and it struck even the analysts as odd that "Hoffmann should prefer talking to the agent in his flat rather than in a public place."[347] We know that Hoffmann was exceptionally at ease in the world of secret services; I believe he guessed what forces could be behind Szolcsányi's arrest and fortunate release, and probably factored in that the Hungarian journalist was wired, which is why he chose to talk to him only at his apartment. Alternatively, he may have wanted to save Szolcsányi, or to make the job of those working against him more difficult and uncertain by refusing to give counterintelligence anything useful.

Recruiting and using Szolcsányi did not deliver actual results, but he was not the only agent, of course, who was used during the investigation. Ervin Rojkó worked for the Communist state security service as a reliable old agent who had already collaborated with the Soviets during the war after he was taken prisoner as a forced labourer on the eastern front. "He worked in the Soviet Union in camp districts 101 and 307 as a labourer, squadron and battalion

345 ÁBTL 3.1.5. O-12344/1 p. 149 Recommendation, 6 April 1960
346 ÁBTL 3.1.5. O-12344/1 p. 210 30 July 1960
347 ÁBTL 3.1.5. O-12344/1 p. 198 Report, 31 May 1960

commander, and as the head of various factories. He was a member of the leadership of the Central Antifascist Committee. At the time, he was recruited by the loyal Comrade László Köves on behalf of NKVD, who believed Rojkó to have been working very efficiently."[348] It is interesting that László Köves' name as the officer of the NKVD also surfaced during the investigation against Hoffmann, albeit indirectly, as Köves was an old illegal communist who joined the underground movement back in 1928 in Frankfurt am Main. He went to Paris from Frankfurt but settled down in Moscow with his parents in the early 1930s at the recommendation of Comintern. Over the coming years, he served the Soviet Union in a number of positions, including as a political warden in several prisoner of war camps, where he came into contact with Ervin Rojkó. After the war, he served until 1948 as a member of the Soviet state security corps, returning home to work as an officer from 1949 first at the Military Policy Department of the Ministry of Defence, and later at its successor, MNVK-2, until the mid-1950s. The Ministry of Interior then requested the transfer of the tried-and-trusted officer to their own ranks and appointed him secret secretary of the Hungarian Embassy in Moscow from 1955 to 1957.[349] From 1957, he headed the Protocol Department of the Ministry for Foreign Trade, which happened to coincide with the period when the foreign trade lobby, the subject of this book, was established and strengthened.[350] Köves had therefore already recruited Ervin Rojkó, who returned from the Soviet Union in 1947, to state security during his Soviet captivity. Officially, however, the Hungarian agency employed the journalist recruited as a patriot only from January 1956.[351] He was assigned to the surveillance of persons suspected of being spies, which he was successful in doing until the revolution broke out. During the last days of October, his state security dossier was destroyed,[352] so we have no documents

348 ÁBTL 3.1.5. O-12344/7-a p. 239 Recommendation, 12 July 1963
349 ÁBTL 2.8.2.2. p. 80 Personal dossier of László Köves p. 11 Curriculum vitae, 10 December 1962
350 ÁBTL 2.8.2.2. p. 80 Personal dossier of László Köves p. 3 Assessment sheet, 10 May 1960
351 ÁBTL 3.1.5. O-12344/7-a p.240 Recommendation, 12 July 1963
352 ÁBTL 3.1.5. O-12344/7-a p. 246 Summary report on the agent with code-name 'Reményi', 25 July 1963

available on his work as an agent prior to 1956, but he was approached as early as November and tasked with making contact with people of Hungarian origin working for western intelligence agencies operating in Vienna.[353] After 1960, the most important task assigned to Rojkó, reporting under the cover name of 'Reményi', was to keep Emil Hoffmann and his contacts under surveillance; he primarily gained their trust as a journalist, but he would also assist them now and then in making business deals.

With help from Rojkó, Hoffmann introduced two friends of his to Hungarian economic and political circles: Gerhard Grützmacher and Gustav Meissner. Both had Nazi records. Grützmacher, who had been visiting Hungary since 1963, told Rojkó that "he had been a member of Hitler's personal guards from 1933, although he was not that zealous a Nazi."[354] He worked in close cooperation with 'Fabulous' and they were committed to supporting developing countries with the intention of establishing economic ties with the Comecon countries to that end. It was often easier to penetrate the markets of developing nations through socialist countries, as we saw with the example of the Kenyan coffee business, so it was probably this incentive and Hungarian foreign trade politics receptive to re-exporting that led them to try their luck with their enterprises in Hungary. But it was not only intermediary trade they wished to connect to, they also wished to bring in orders to Hungarian industry. Although "he was not a Nazi", Grützmacher already had close ties to the men of the infamous Grand Mufti of Jerusalem, Haj Amin al-Husseini, in the 1960s. According to recent research, the Grand Mufti played a major role in Hitler's decision to exterminate Jews.[355] Husseini actually participated actively in persecuting and killing Jews: In 1943, for example, he recruited the Muslim corps of the Waffen SS in Bosnia personally, a unit that slaughtered 1,000 people at Crvenka, Serbia,

353 ÁBTL 3.1.5. O-12344/7-a p. 240 Recommendation, 12 July 1963

354 ÁBTL 3.1.5. O-12344/7-a p. 168 Report, 9 July 1963

355 Robin – Schwanitz 2014, p. 14–15 In 2015, the Israeli Prime Minister Benjamin Netanyahu expressly stated at the World Zionist Congress that Hitler had originally only wanted to chase Jews away from Germany. It was the Grand Mufti who talked him out of this option, reasoning that all these exiled people would flee to Palestine. His statement sparked widespread outrage all over the world.

from among the Hungarian forced labourers sent off from the mines at Bor, Serbia, *In a Forced March*[356] to Germany.[357] Dr Sayyid F. Imam worked in Berlin as the Grand Mufti's representative before and during the war, and represented the powerful Muslim leader in Damascus in the 1960s, assigning Grützmacher to order 150 Ikarus buses from Budapest to Syria.[358]

As one of the well-known propagandists of Hitler's Germany, Gustav Meissner was regarded in the 1940s as the most dangerous man in Denmark and had a direct interest in the coffee business of the company Rothfos mentioned previously. By the 1960s, however, he too was transformed into a 'businessman' and became a representative of Rothfos, which re-exported coffee to West Germany through Hungary. From the early 1960s, he travelled to Hungary on a regular basis as Emil Hoffmann's direct colleague. He and Hoffmann not only struck business deals together but also operated a joint newspaper publisher. As with Hoffmann, it was Meissner's self-published magazine that was one of the trumps that made Hungarian party leadership tolerate for years that he visited the country regularly. Making Kádár presentable overrode anything and everything else at a time when the old-new regime was eager to pursue a path of consolidation after the bloody retributions were over and done with. To achieve this, they did not shy away from using former Nazi officers accused of war crimes to build up their good reputation, right at a time when the Hungarian people who had fought for democracy and freedom in a revolution labelled a 'fascist rebellion' were brought to trial by the thousands as 'fascist vermin'. This

356 Reference to the poem by Miklós Radnóti, "Erőltetett Menet". One of Hungary's most famous and popular poets, Miklós Radnóti was sent into forced labour after the German occupation in May 1944, to a labour camp near the Serbian town of Bor. With the Soviets approaching, the forced labourers were sent on a march in September towards Germany, under cruel conditions. The 35-year-old poet did not survive the march, and succumbed to the inhumane conditions near Győr. He wrote the poem "In a Forced March" while in Serbia.

357 For more on the fate of the forced labourers in Bor, see: Csapody 2014 János Nyerges was kept prisoner in and escaped from the camp at Bor, although his name was not included in the cited book, perhaps precisely because he escaped. It is interesting that a business relationship was established barely two decades later to further the interests of the surviving former forced labourer and those of the anti-Semite Grand Mufti.

358 ÁBTL 3.1.5. O-12344/7-a p. 175 Report, 22 July 1963

irreconcilable contradiction puts the idea of Orwellian doublespeak to shame and illustrates the unscrupulous and morally untenable nature of the Kádárian consolidation that went under the guise of 'soft dictatorship'.

From a ruling perspective, Kádár's pragmatism was hugely successful for the regime as the idyllic reporting of Hungary, written under extraordinary circumstances, vastly improved the image of the country and its leader. What do I mean by extraordinary circumstances? On 9 December 1962, Meissner was staying in Hungary again, and Ervin Rojkó invited him for a Sunday trip to Visegrád. In the village of Leányfalu, the embedded 'tour guide' happened to notice János Kádár walking at the side of the road with his dear wife. Having called the attention of the German journalist to this 'fortunate coincidence' the guide asked Meissner if he wanted to stop for a moment to engage in conversation with the country's premier. Of course, the journalist grabbed the opportunity with both hands. He was flabbergasted that the most powerful man in Hungary, the head of both the government and the state party, could just walk the street without any protection whatsoever and simply engage with any stranger who happens to walk by. Mrs Kádár, who used to fight the 'reactionary' deviationists at the mail control unit of state security, was the embodiment of charm. Dripping with kindness, she insisted that the journalist absolutely had to return in spring, when the Danube bend would be at its most beautiful.[359] I can only guess at the scale of the collusion and organisation that these few minutes of conversation took to stage, but no matter how much energy went into it, it was definitely worth it. A few days later, the first article of a three-part series was published in the West German press entitled 'Meeting Kádár'. The blood-stained murderer of the revolution was presented to the western public as the King Matthias of the folk tales, who could walk among the common people because he was surrounded by love and appreciation, and therefore had nothing to fear:

"Last week, we were staying in Budapest. We shall report on this in several instalments. Today we shall start with our political impressions.

359 ÁBTL 3.1.5. O-12344/5 p. 117 Report by 'Reményi', 10 December 1962

It's Sunday. Finally, the cold, damp blanket of steam has cleared from above Budapest. The city is now ever so colourful under the clear, icy sky. The thermometer has dropped to minus 10 centigrade. The Danube is covered in blocks of ice. We are on our way to Visegrád. Visegrád is an immensely popular spa resort with a historical appeal, the ruins of the Solomon tower and the Renaissance palace of King Matthias are also located here. Legend has it that the famous fountain of the palace had Hungarian red and white wine flowing like waterfalls at royal festivities.

We are about halfway to our destination when we meet János Kádár. He is wearing a light brown suede sports jacket. Mrs Kádár, accompanying her husband on his morning walk, is also dressed in casual and simple attire for a winter outing. My Hungarian acquaintance, an editor and head of department at a ministry, stopped his Skoda to greet the leader of the party and prime minister, the most powerful man in Hungary. Kádár learns from him that I am a visitor from Bonn. He cordially reaches out to shake my hand. Mrs Kádár tells me it is a shame that I have chosen winter to travel to Hungary, adding that I must absolutely return to Budapest in May when the banks of the Danube are clad in a vibrant cavalcade of colour. We do not talk about politics. But talking about Hungary is politics in itself. Because Kádár is Hungarian first and a politician and ideologue second. They both say goodbye to me in German and continue their walk. They are completely alone. A black Mercedes, Kádár's official vehicle, is following them at a distance of about five hundred metres. Police protection is nowhere in sight. Kádár does not need it, says my guide. The latter is not a member of the party, he fought on the side of the Germans as an Army officer, was injured nine times, and finally spent three years as a POW of the Russians. What connects him with Kádár is being Hungarian."[360]

The article goes on at length, describing political and economic life in Hungary, the living standards of ordinary people, which lagged only slightly behind those of citizens of West Germany. According to state security, the magazine had a wide reach, paving the way for the spread of manipulated

360 ÁBTL 3.1.5. O-12344/12 p. 71–72 Translation of the edition of the Exklusive Dienst of 16 December 1962

perceptions of goulash communism. The story reveals the secret methods of Kádár's opening to the West, a conscious and highly organised manipulation that even the General Secretary of the Party actively participated in if need be, because there can be no doubt this meeting was a secret service operation organised in advance. For this manipulation, they found the perfect partner in the West German journalist, whose Nazi past guaranteed he would paint a picture of the country he was being shown around without any moral reservations. The article proves that anything can be presented in a way that expresses the exact opposite of reality. He made Rojkó's person likeable for his readers by emphasising that he fought on the side of the Germans during the war, although we know he was actually a forced labourer, a member of the anti-fascist committee as a prisoner of war, and also worked for the communist secret services.

When exploring Hoffmann's relations, state security paid meticulous attention to clarifying the role of Ernő Porkai (Auspitz), who was the president of the Journalist Club before the revolution. He was later head of the Rózsadomb restaurant when Hoffmann was visiting Hungary and kept in continuous touch with him.[361] We have little information on the start of their acquaintance, but given that investigation reports show they already knew each other when Hoffmann visited Hungary in 1956, it is safe to say the relationship dated back to before 1945. After World War One, Porkai travelled around western European countries working in the restaurant and entertainment business in various cities, including Paris, London, Brussels, Amsterdam, Prague and Rotterdam, until he returned to Budapest in 1931 to become the manager of Moulin Rouge.[362] During the war, he collaborated with the Nazi occupying forces and also the Arrow Cross Party, "selling the Jews to the Arrow Cross forces",[363] according to state security. They were probably not exaggerating too much, according to the information of MNVK-2 at least. In 1944, he turned László Fehér, one of his fellow fugitives from the forced labour camp and a

361 ÁBTL 3.1.5. O-12344/ p. 84 Confession by Ferenc Szolcsányi, 28 December 1959
362 ÁBTL 3.1.5 O-9260 p. 105 Operational summary, 17 June 1952
363 ÁBTL 3.1.5. O-9260 p. 45 Report, 15 April 1951

member of the resistance group led by László Sólyom,[364] into the authorities.[365] After the war, the People's Court of Budapest sentenced Porkai to one year's imprisonment, but the National Council of People's Courts acquitted him of the charges, and he was later recruited to be an agent of the terror organisation by György Kardos,[366] an officer of the Military Policy Department. Kardos told state security detectives during the investigation against Hoffmann that Porkai had worked not only for the Arrow Cross prior to 1945, but also for the Gestapo, and his dossier was destroyed during the revolution.[367] Given that Porkai was in contact with the German secret service, he may have known Hoffmann from back in 1944. Counterintelligence managed to gather quite a lot of compromising information on Porkai as they had a wife of one of the agents employed as a waitress who was able to tell her husband a great deal about the manager's little tricks and frauds. On top of this, the agent claimed he dared not let his wife go home alone late at night and would sit at a table quietly in the evenings to keep an eye on the restaurant's guests.[368] Eventually, the fraud and petty embezzlement at the Rózsadomb restaurant did not make it to trial. We do not know exactly who was behind Porkai, but a state security report from the early 1950s states that Porkai had György Marosán[369] to thank

364 László Sólyom (1908–1950), a Hungarian royal military officer and one of the significant figures of national resistance after the German occupation. In 1945 he was appointed head of the Budapest Police Headquarters, while he returned to the army in the spring of 1946, serving as the Chief of Staff of the Hungarian Army between 1948 and 1950. He was brought before a court in a show trial and executed in 1950.

365 ÁBTL 3.1.5. O-12344/7 p. 92 György Kardos' information on Porkai, 3 July 1963

366 György Kardos (1918–1985) was a member of the illegal Communist Party before 1945. Following 1945, he was a detective of the Military Policy Department led by György Pálffy and played a decisive role in elaborating the ideology underlying the Hungarian Community show trial and in conducting the trial itself. In 1950, he was arrested during the State Protection Authority's campaign against the Military Policy Department and remained in prison until 1954. In 1956, Kardos was recalled to state security, before working at the cross-border intelligence department of military intelligence, until he was relieved from service in 1961 at his own request. He worked as the director of the publishing house Magvető Kiadó until his death.

367 ÁBTL 3.1.5. O-12344/7 p. 92 György Kardos' information on Porkai, 3 July 1963

368 ÁBTL 3.1.5. O-12344/6 p. 54–59 Report by 'Örsi', 26 August 1960

369 György Marosán (1908–1992) participated in the workers' movement from a very young age and engaged in politics from 1927 onwards with the Social Democratic Party. After

for being allowed to manage the famous/infamous Moulin Rouge after the club was nationalised.[370] This may have been a false statement from the State Protection Authority, but the politician's name appeared in connection with other incidents in this network of nexuses. It was also Marosán who supported Hoffmann in the party leadership after 1956, and the German journalist sang his praises until 1962, when Kádár sidelined the party cadre known for his orthodox communist views and for representing the hard line in the retributions following the revolution. Hoffmann was quick to switch sides, too: when Rojkó shared the news of Marosán being replaced with Hoffmann, "he told Rojkó that Kádár had disposed of a Stalinist, and that they knew Marosán as a violent and forceful man. They called Comrade Kádár a nationalist again and regarded it as a huge result that he was replacing all the hardliners."[371]

When it came to describing Kádár, a recurring theme the formerly extreme right-wing journalists used was to refer to nationalism and his Hungarian nationality. They were of the opinion that being Hungarian and proudly so was the most important characteristic of the General Secretary of the Party. It is common today to say that the members of the Hungarian Communist Party elite considered nationalism and 'magyarkodás' (a pejorative expression used to describe someone who is extremely proud of their Hungarian nationality) to be the source of all evil; painting Hungary as Hitler's 'last vassal' and thus equating national sentiments – with some exaggeration – with an extreme and murderous ideology was the primary source of legitimacy for their power. For them, the ultimate reference point was the unquestionable superiority of

the war, his career took off. Marosán belonged to the crypto-communists, who fervently advocated the unification of social democrats and communists. Between 1948 and 1959, he was the first secretary of the Budapest committee of the Hungarian Workers' Party, then minister of light industry. He was arrested in July 1950 and sentenced first to death, then to life in prison. He was released in March 1956 and immediately became one of the top functionaries of the Party when he was appointed Deputy Chairman of the Council of Ministers. After the revolution was crushed, his was the most aggressive voice demanding bloody retributions, and the notorious words uttered on 8 December are attributed to him: "From today, we shoot." After 1962, Marosán's person became a burden when consolidation of the system began, so Kádár sidelined him.

370 ÁBTL 3.1.5. O-9260 p. 40 Note, 22 August 1950

371 ÁBTL 3.1.5. O-12344/4-a p. 250 Report, 6 November 1962

communist internationalism, so it follows that accusing Kádár of nationalism is equally unfounded and considered outright defamation according to their narrative. In spite of this, Kádár's propaganda mechanism was clearly tolerant of the narrative that went against its own convictions, because they knew this was what was needed to achieve their objectives in that context. At this point, the left-wing ideology dependent on the fight against fascism to gain an assumed moral superiority (even to this day) became embroiled in contradiction once again.

End game

Emil Hoffmann won the trust of Hungarian political circles by promising to write a book about Hungary, but we already know that the book had not been written by 1959. In 1961, however, a longer study by Hoffmann was published on the operation of Comecon as the third volume of the *Major Markets of the World* series.[372] The author did not merely describe how Comecon worked, but compared it to the opportunities of the Common Market, clearly favouring socialist cooperation. His was the voice of a committed supporter of trade between East and West who was surprisingly well-informed about the internal situation of the countries of the Soviet Bloc, and his economic data and conclusions were accurate: "It is clear to see that a considerable proportion of the figures in the study are classified data. In the parts that have been checked, even the figures are absolutely precise,"[373] an expert approached to evaluate the study said. It was clear that Hoffmann mined Comecon calculations and plans intended for internal use to gain information on the sizes and terms of loans the Soviet Union provided to individual countries. He also described in detail the technical-scientific cooperation of the member states and went into

372 Dr Emil Hoffmann: COMECON, der gemeinsame Markt in Osteuropa. C. W. Leske Verlag, Opladen, 1961

373 ÁBTL 3.1.5 O-12344/4-a p. 269 Note, 7 June 1962

specifics about which experts travelled, from and to where, writing also about the specialised tasks assigned to the individual member states. János Nyerges was also asked to analyse the information in the book and he too concluded that the data were reasonably accurate, but added that the writing was prone to hyperbole about the results that painted a more favourable picture of Comecon than the Common Market.[374] While the publishing of the book was welcome news for the party leadership, a review was printed immediately in a relevant Hungarian magazine.[375] Up until that point, however, secrecy was the most important aspect of analysis of the book as far as state security was concerned. Given that they were treating Hoffmann as an imperialist spy, they were trying to identify where such sensitive information could have been leaked from, so the possible suspicion of a crime was raised against the sources of information he was in contact with. Three institutes fell under suspicion, none without good reason as it happened, since Hoffmann had close relationships with their staff. Primarily, of course, it was the OMFB, its deputy president Sebestyén and his direct colleagues who could have provided the information, including Nyerges, we must add, but the trade and advertising agency Presto Kereskedelmi és Hirdetési Ügynökség Rt. and the Chamber of Commerce also held the information in question. 'Fabulous' was a frequent visitor to these institutions too.

The Presto Foreign Trade Advertising Company was established in 1951 with the aim of advertising Hungarian products intended for export to western countries, although we learned previously that intermediary trade accounted for an increasing share of Hungary's exports, so the advertisements were intended more to popularise re-exported products and the firms acting as trade intermediaries. By early 1956, the activities of the state firm engaged in advertising were slightly expanded. This was partly to curb the increasing opportunities for corruption arising from commission fees. Presto had relationships with several foreign advertising companies that channelled some of the money paid for the advertisements placed by Hungarian companies –

374 ÁBTL 3.1.5 O-12344/6, p. 195 Report, 12 June 1962
375 See: Vajda 1962

who could of course access western markets only through Presto – as agency commission fees. "The practice of channelling money back as commission fees had also arisen previously with regard to other foreign trade companies. In several cases, the foreign traders refused to sell their products below a certain price as this would violate an agreement they had entered into, or would result in having to sell the products at similar prices to other buyers as well. They were, however, willing to channel some of the money back as commission fees, because paying commissions did not count as reducing their prices. In order to earn such commission fees for the Hungarian people, the foreign trade companies concluded commission agreements in their employees' names as agents, with the approval of the Ministry of Foreign Trade."[376] It is clear that this must have been a hotbed of corruption, because this arrangement meant that the money representing the price discount was paid into the hands of the trade representatives of these companies, who paid the state company an amount they thought to be 'reasonable', which means they practically left it to the honesty of the individual to forward the amount of the commission to the company. In order to combat embezzlement, a proposal was made to designate one state company that operated as an agency, and could therefore act as an agent to ensure the money was channelled back, i.e. the foreign partners would no longer be paying the commission fees serving as the price discount to private individuals, but to an institution: "Since the Presto Foreign Trade Advertising Company has already been engaged in agency activities to date anyway, it is well-known as an agency abroad and best positioned to handle the aforementioned activity,"[377] the Ministry of Foreign Trade found.

This created Presto Kereskedelmi és Hirdetési Ügynökség Rt. by early 1956. The company, however, was unable to eliminate widespread corruption in foreign trade, but significant power was handed over to it as it enjoyed a privileged position not only in terms of commission fees but also with regard

376 Magyar Nemzeti Levéltár Országos Levéltára (MNL OL) [Hungarian National Archives] XIX-A-83-b. Decision No. 3018/I. 7./56 of the Council of Ministers of the People's Republic of Hungary on converting the Presto Foreign Trade Company into a company limited by shares, 7 January 1956

377 Ibid.

to the information it held. It was Presto who placed all the ads for Hungarian foreign trade, thus obtaining indirect information that made it possible to draw fairly accurate conclusions regarding the turnover of every Hungarian foreign trade company. To compile the annual propaganda plan, Presto also forwarded a questionnaire to the companies and foreign trade offices in which they had to indicate what, where and for how much a given company wanted to advertise over the following year. This way they learned about production preferences, the markets for the products, and even the financial situations of the individual companies as the exact percentage of the annual budget that had to be spent on advertising was precisely defined.[378] For the record, however, we must also point out that the individual companies were trying to safeguard their own business interests and to protect their often corruption-based system of nexuses, so they did not necessarily provide Presto with all the information requested. Circumventing the advertising agency, they also gave direct orders to printing houses to print their advertising materials even though the paper quota determined for foreign trade companies was far from sufficient to do so; the printing houses, however, provided them with 'black' paper and capacity. All they needed was the 'right' connection.[379] Altogether, however, it was still Presto as Hoffman's informant who used its own information to paint a fairly precise picture of industrial companies through the volume and structure of their trading activities. Given the new privileges of the company, Presto's top job could have been attractive to the foreign trade circles discussed in this book, since a renewed possibility for corruption was clearly created by the monopoly of the advertisements, not to mention the supervision of the commissions system. The intention of the legislators was in vain, the rate of commissions ending up in people's pockets failed to drop either on the side of the advertising agency, nor with the other foreign trade companies. Previous research has provided ample evidence of this.[380]

378 ÁBTL 3.1.5 O-12344/7-a p. 156-157 Report, 17 April 1963
379 Jávor 1965, p. 218
380 On the abuses, see: Borvendég 2017; Borvendég 2018

Presto's general manager Jenő Havas "also had a number of financial interests, which he was able to establish, particularly during his frequent visits abroad."[381] Havas was an old communist cadre who had considerable experience in the advertising and propaganda businesses. In 1919, at the time of the Hungarian Soviet Republic, he played an active role as a member of the Communist Party and became a member around this time.[382] During 1920-1921, he was held in custody for brief periods on several occasions, but he emigrated to Vienna in 1921, where he established an advertising company. After Austria was occupied in 1938, he fled to London, where he lived until 1947 and was chairman of the Hungarian Club in London before returning home.[383] The investigation documents on him from 1953 show that, although a show trial was also prepared against him as part of the Party's internal reckoning, he was eventually released in the absence of evidence, even though he worked for British intelligence by his own admission. We may take the label of 'imperialist spy' appearing in the documents dating back to the first half of the 1950s with a handful rather than a pinch of salt, but the secret service maelstrom outlined in the first chapter of this book makes Havas' story plausible. It was he who "travelled to Vienna in the summer of 1945 on behalf of British military intelligence with the task of exploring the revival of Nazi organisations and reporting on them. Havas carried out the task as a correspondent of the British military magazine *Weltpresse*."[384] In 1946, Havas severed his relationship with the British secret services on the grounds that they also wanted reports on left-wing parties. This confession was accepted by state security and Havas was released. His dossier was archived as no evidence was found that British intelligence was also spying on the communists. The top job at Presto was therefore held by an advertising expert with excellent English and German skills who provided information on Hungarian foreign trade without any reservations whatsoever to the former Nazi officer Emil Hoffmann, but it was clearly no longer his job to supply

381 ÁBTL 3.1.5 O-12344/7-a p. 159 Report, 17 April 1963
382 ÁBTL 3.1.9 V-150271 p. 3 Recommendation in the case of Jenő Havas, 28 December 1953
383 Ibid.
384 Ibid.

intelligence on the revival of Nazi organisations. He was retired in 1962 but continued to work as an agent and became the representative of several British companies[385] before going on to be employed by[386] Hungagent.[387]

In 1962, a new man was appointed to head Presto who is known to have been a committed source of MNVK-2: Mátyás Csillag. Originally a trained blacksmith, Csillag was hired in 1945 by the Political Department of the Ministry of the Interior. He worked in trade from 1948 onwards, first at the foreign trade company Nikex,[388] then at Technoimpex. Between 1952 and 1958, he was an attaché of the trade office in Beijing, before being employed by Technoimpex and MOGÜRT[389] for a few years, after which he moved to Presto to be posted abroad again in 1967 and was sent to Kuwait for ten months. From Kuwait, he was transferred to the trade office in Milan, which he headed until he 'deserted' on 27 September 1973. Milan was a base for military intelligence and it is clear that Csillag worked for MNVK-2. Following the abandonment of his post, it did occur to the detectives of state security that their counterpart had a hand in removing Csillag from the equation and setting him up at a subsidiary of a US firm.[390] They were unable to prove this, but considering Csillag was given a job at a firm called Phillip Brothers that played a pivotal role in arranging an oil transit deal which caused severe damage to Hungary later on, and where certain officers of military intelligence were also involved, this assumption does not seem particularly far-fetched.[391] The interesting aspect of his escape was not only this dubious assumption, but also his farewell note to László Darvas, then trade adviser at the Rome office. What lies in the background to the case is that the employees working under Csillag reported him to Darvas, complaining about

385 ÁBTL 3.1.2 M-21284/3 p. 283 Report, 20 February 1963
386 ÁBTL 3.1.2 M-21284/5 p. 152 Note, 25 June 1964
387 The trading company Hungagent was established in the mid-1960s. It was not just yet another specialised foreign trade company, but specifically acted as a trade agent, i.e. engaged in intermediary activities.
388 Nikex distributed heavy industry products.
389 MOGÜRT (Hungarian National Vehicles Shareholding Company) traded vehicles and parts for repair.
390 ÁBTL 3.1.9 V-160338/7 p. 38 Report on the dissident Mátyás Csillag, 13 June 1974
391 On the topic, see: Borvendég 2017, p. 111–160

the patronising and humiliating communication style of the trade adviser to Milan. In 1973, a disciplinary procedure was conducted against Mátyás Csillag. It was one he very much took offense to, so his farewell note was also attributed to this affront. The note, however, does mention threats that cannot be directly linked to the disciplinary procedure mentioned: Csillag was complaining of anti-Semitic comments that made him feel unsafe and prompted him to flee the country. "It seems my Jewish origins are unforgivable,"[392] the adviser declared, suggesting that the procedure against him was also related to this.

Csillag's appointment to the helm of Presto in the early 1960s raises an interesting question. Because he worked for MNVK-2, it is possible that supervising the commissions system was attractive to the secret services and they wanted to put their own man in position to control the sums paid by western companies to Hungarian traders. The aim, however, may have been to expand the illegal financial sources of the secret service, rather than to dramatically crack down on abuses. The Hoffmann case led to an investigation against the OMFB, which you can read about in the previous chapter and that was only partially successful for state security. While gathering information, they discovered the illegal finances of military intelligence, and an opportunity opened up for counterintelligence to launch a further investigation into the culpability of MNVK-2. During the investigation against the managers of Metalimpex, which operated as a base organisation for the military secret service, a number of illegal financial transactions were unveiled, but state security was also only able to deliver the appearance of success this time around as the company managers were sacrificed as scapegoats by the network behind them, leaving the operation of the system unaffected.[393]

The third major institution after OMFB and Presto that Hoffmann was obtaining his information from was the Hungarian Chamber of Commerce.[394]

392 ÁBTL 3.2.4 K-2971 Report on Bartyán, Anna, 15 December 1980, p. 203

393 For more details, cf. Borvendég 2018

394 During the years of state socialism, the Hungarian Chamber of Commerce was not the same as the system of representing interests established in the second half of the 19th century. The autonomous chamber system of the civil administration fell victim to the socialist regime, and although the Hungarian Chamber of Commerce was established in

Back in 1957, when Hoffman promised to prepare a study for the FDP about the situation in Hungary, he was also directed to the Chamber, where he met chairman József Buzás. Buzás was later posted to Frankfurt, replacing János Sebestyén as the head of the trade office. At the time, his relationship with Hoffmann was not unclouded either, but he was still ready to help gather the materials required to write the article in 1957.[395] At the Chamber, László Lindner was the person Hoffmann maintained contact with for many years. Lindner was the head of the Press and Propaganda Department, and his superior, Endre Jónai, the committed source of MNVK-2 under the cover name of 'Vadas', introduced the two men to each other. Jónai is the first player in this story to be in contact with Hoffmann expressly on the instructions of military intelligence and counterintelligence. He regarded Israel to be his home as a Zionist,[396] and based on the available documentation it appears he was not at all keen on cooperating with the former Nazi officer. Jónai also worked for the Soviet secret services for a while and was linked to the Soviet resident officer when he was posted to Ceylon as a trade adviser. The Soviets, however, certainly looked unfavourably on Jónai maintaining a particularly good relationship with members of the Israeli Embassy, or his dealings with semi-precious stones he bought in Ceylon, had cut in Israel, and sold in Western Europe.[397] Jónai chose to emigrate to Israel in 1970.

László Lindner contacted Hoffmann through Jónai, and given that Jónai was controlled by MNVK-2, this liaison is likely to have been established in accordance with their plans. MNVK-2 held documents on Linder, too, but the documents provided to the Ministry of Interior only show that he was

1948, it was a chamber only in name. Keeping the name was important to ensure it was accepted by western partners, but the organisation had no autonomy whatsoever and was relegated to being part of the state administration. It was subjugated to the Ministry of Foreign Trade and only state-owned foreign trade companies could be its members. After the new economic mechanism came into being, the chamber's powers and activities were slightly expanded, but it wasn't until the 1980s that more serious changes were introduced. Zachar 2017

395 ÁBTL 3.1.5 O-12344/1 p. 33 Note by MNVK-2, 16 March 1959

396 ÁBTL 3.1.5 O-15409, p. 33 Evaluation report, 13 December 1971

397 Ibid.

involved in recruitment selection,[398] the outcomes of which are unknown.[399] State security launched an investigation against Lindner in the early 1970s, when it turned out he was still meeting Hoffman in Vienna even though the West German journalist had already been expelled from Hungary.[400] Lindner graduated from a trade academy in Paris and was also awarded a degree in law in Pécs in 1940. During the war, he was held prisoner as a forced labourer in the camp around the Bor copper mines, but he managed to escape.[401] After the war, Lindner worked as a journalist and at a radio station, occupying several jobs. According to the investigation documents, he was appointed to the Chamber in 1957,[402] then worked at the Institute for Cultural Relations, and in 1969 was appointed temporary head of the Information Office after Géza Naményi's death. Counterintelligence was baffled by Lindner's career as he was one of Hoffmann's important contacts and did not break off cooperation with the German trader even after Hoffmann was expelled from the country, which means he was engaged in dangerous activities from a counterintelligence perspective. The officers of the Ministry of Interior suspected that Lindner was protected by military intelligence. It was probably their doing that Lindner's dossier was deleted from the archives after the unsuccessful investigation against Hoffman: "As is well known – and I do not think it would be an exposé to provide an explanation for the sake of expediency – it is not the interests of counterintelligence that generally prevail at the Institute for Cultural Relations

398 Recruitment selection was one of the early networking phases of the secret service, when they conducted targeted research on individuals willing to cooperate in and capable of carrying out specific tasks.

399 ÁBTL 3.1.5 O-15409 p. 37–43 Documents taken over from MNVK-2.

400 ÁBTL 3.1.5 O-15409 p. 7 Decision, 6 June 1972

401 In an interview made in 2003, he recalled the start of the Forced March, which he accidentally missed out on: "Chess literally saved my life. Together with a fellow prisoner, Tibor Feldmann-Flórián, who later became an international grand master, we used to play chess all the time while we were hiding from the henchmen. On 17 September, too, we were hiding out in the bushes behind the camp, playing chess. We were so deeply immersed in the game that we had ten games behind us when we remembered. (I still have the moves of the game in this little notebook.) Returning to the camp, we were shocked to find that the majority of the prisoners had vanished. It turned out that a large group had set off for home." Tihanyi 2003; See also: Csapody 2014, p. 41

402 ÁBTL 3.1.5 O-15409, p. 27 Evaluation report, 13 December 1971

and in this area, but the higher interests of MNVK-2 and Division III/I. I am saying this only to explain that 'Chamberlain',[403] or whoever put him in place, may have been manipulating the operational situation in this way on purpose."[404] According to the operative officer, the fact that Lindner's dossier was deleted from the archives made it possible for him not to be flagged up as potentially unreliable when he was appointed to head the Information Office. Counterintelligence was trying to gather condemning evidence against Lindner, but to no avail. They were unable to prove that he conspired against the people's republic, so they had to close the file with no result from their point of view. Anyway, Ervin Rojkó reported even in 1972 that Lindner and his son, who was a trainee journalist at the time, met Hoffmann in Vienna on a regular basis.[405]

Counterintelligence took a long time to prepare to close the investigation against Hoffmann and to order the expulsion of the German journalist, but they had a hard time actually getting this done. After the book was published in 1961, a number of experts found that classified materials were leaked to Hoffmann, which proved yet again how serious the matter was, so they started conspiring to bring the former Nazi officer and his relations in Hungary down. Given that it was mostly the institutions listed that fell under suspicion for leaking the information, they were also used to set the trap. Within the National Technical Development Committee, a task force was set up to analyse Comecon data, including those of Hoffmann's contacts they found suspicious, and then forwarded them false documents.[406] They then watched Hoffmann's writings to see if the disinformation cropped up somewhere. Mátyás Csillag, Hoffmann's great adversary, was also involved in this secret service operation.[407] The documents do not reveal why Csillag disliked Hoffmann in the first place. It is quite possible that it was only military intelligence using Csillag to shuffle the cards in Hoffmann's games, the games counterintelligence also participated in before long, and that the journalist misinterpreted these manipulations as

403 The codename of the target László Lindner with counterintelligence.
404 ÁBTL 3.1.5 O-15409, p. 26 Evaluation report, 13 December 1971
405 ÁBTL 3.1.5 O-15409, p. 194 Report, 21 August 1972
406 ÁBTL 3.1.5 O-12344/7 p. 40 Summary report, 20 March 1963
407 ÁBTL 3.1.5 O-12344/7-a p. 39 Summary report, 17 June 1963

personal antipathy. As with Jónai, we cannot rule out the possibility that a working relationship with a former Nazi officer was untenable for Csillag, as he used anti-Semitism as the grounds for his emigration. The aversion between the two of them prompted Hoffmann to make inappropriate outbursts as he held Csillag to be a Stalinist: "Hoffmann was upset, telling us how Csillag appointed the head of HR to be head of division, and that people like him must be gassed,"[408] Rojkó says in his report. The personnel changes he ordered as the head of Presto were indeed designed to render Hoffmann's relations impossible as Csillag transferred or retired several people who had had a relationship with 'Fabulous' for years, thus hampering the leaking of information.[409]

Hoffmann's most important connection was still Sebestyén, who, following the establishment of the OMFB, ended up in a position from which he could influence the country's most important purchases and business deals, so it was top priority for counterintelligence to sour the partnership between them in the course of the investigation against 'Fabulous'. They also used Nyerges in this operation, who received the task as an agent to pit the two men against each other. A great opportunity came late in 1963 after Hoffmann published an article in his own magazine *Welthandels Informationen* in the first half of the year. Quoting Sebestyén as its source, it analysed the tasks of mining natural gas in Hungary planned for the following two years, the impacts of the pipe embargo, and the details of the Soviet-Hungarian agreements resulting from this.[410] State security found the latter to be particularly sensitive as western countries were using the pipe embargo as an attempt to make the building of natural gas and oil pipes more difficult, which could have jeopardised energy security, a key strategic area for socialist countries. We cannot tell from state security documents exactly what happened, but it seems highly likely that Nyerges intimidated Sebestyén by accusing him of a severe breach of confidentiality if Hoffmann was telling the truth and his information really was coming from the deputy chairman. Sebestyén ensured the head of division of the Ministry of

408 ÁBTL 3.1.5 O-12344/13-a p. 304 Report, 27 November 1963
409 ÁBTL 3.1.5 O-12344/12 p. 210 Social contact report, Mátyás Csillag, 15 November 1964
410 ÁBTL 3.1.5 O-12344/8, p. 142 Service request, 4 December 1963

Foreign Trade that "he would definitely kick him out" if Hoffmann contacted him.[411] Nyerges was given the task by his case officer of holding 'Fabulous' to account and to give him 24 hours to come up with a good explanation for his indiscretion, as well as to drive home the message that failure to do so could mean the end of his business activities in Hungary.[412] Hoffmann, however, was not so easily scared and sent a threatening letter to Nyerges assuring him that he would tarnish the reputation of the trade diplomat in Europe if he hampered Hoffmann's businesses in Hungary. At the same time, Sebestyén also contacted Nyerges and told him that he did indeed tell Hoffmann all the things in the article, just to "provoke the Nazis".[413] The story did not land either of the Hungarian players in trouble, but counterintelligence was finally able to put an end to the five-year investigation: Although they could not gather enough evidence to bring Hoffmann to court, they put him on the banned list, which means they requested the expulsion of 'Fabulous' from Hungary. It comes as no surprise that Hoffmann had such extensive relationships that it was not until late 1966 that the expulsion order came through after various agents, but mostly the Press Division of the Ministry of Foreign Affairs, continuously obstructed Hoffmann's blacklisting.[414] This is all the more interesting as MNVK-2 did some strong lobbying with the Press Division of the Ministry of Foreign Affairs[415] and was also responsible for initiating the investigation against Hoffmann, so it appears contradictory that they were hindering his expulsion order.

Hoffmann's activities in Hungary are closely related to the building of the economic network that undoubtedly affected the country's opportunities, but he was definitely not the main character in the story. Given that completely exposing the background, members and activities of the interest group I call the 'foreign trade lobby' appears hopeless for the time being, even though progress is possible as military intelligence documents are becoming increasingly

411 ÁBTL 3.1.5 O-12344/8, p. 116 Report, 15 February 1964
412 ÁBTL 3.1.5 O-12344/13-a p 278 Operational plan, 15 November 1963
413 Ibid.
414 ÁBTL 3.1.5 O-12344/12 p. 294 Transcript for Head of Department III/III-9 of the Ministry of Interior, 7 October 1966
415 Borvendég 2016

researchable, the majority of the questions emerging when presenting the case cannot be definitively answered. A hunger for attention was clearly part of Emil Hoffmann's personality. Even after the war, he refused to give up the continuous sense of importance and secrecy he experienced as an intelligence agent, which made him a convenient pawn in the games of the Cold War. He was briefly used as a tool by the Hungarian trade elite, the aims and methods of which were changing after 1956 because they had to adapt to how Kádár's regime wielded power. This in itself gave them more room for manoeuvre.

Ensuring the inflow of capital and technology required to satisfy the living standards policy that would ensure Kádár's legitimacy demanded that Hungary's politics were oriented towards the West, which valorised the significance of the economic relations in place for a decade even before the revolution. This opened up opportunities to expand the network and rendered the individuals who built and operated that system of nexuses indispensable. János Fekete, János Nyerges and János Sebestyén must have played a crucial role in this network: in this financial and economic interest group, Fekete, Nyerges and Sebestyén were decisive figures in finance, economic diplomacy and technological-scientific relations, respectively. Nyerges' diplomatic negotiations went far beyond economic and trade relations. We have already learned that, in Kiesinger and Todenhöfer, he earned political supporters for the Hungarian government, which extended into Kiesinger's term of office as chancellor and beyond: "Nyerges has old ties linking him to the Todenhöfer family, and he visits them when he travels to West Germany on a regular basis. On such occasions, Nyerges obtains information from prominent opposition politicians regarding current political and economic issues. Through the family, he maintains relations with former chancellor Kurt Kiesinger and Helmut Kohl, the CDU's candidate for chancellor,"[416] a report at the Ministry of Interior from 1975 says about Nyerges. One of the most significant politicians in modern Germany, Christian democratic chancellor Kohl, who is referred to as the father of German reunification, and who played a major role in the collapse of

416 ÁBTL 3.2.1 Bt-481/2, p. 170 Proposal, 10 September 1975

the Soviet Bloc, began his diplomatic relations with Hungary through Nyerges, who had the keen sense to identify the person who would one day hold the reigns in West German politics.[417]

Emil Hoffmann played only a bit part in this story, but he became very useful amidst the changing circumstances of the 1960s: he not only understood and fervently supported East-West trade, he was also a journalist who recognised it was good business to influence the anti-Kádár public feeling in western countries after the revolution was crushed, and to help make Kádár as a person acceptable and even likeable in the eyes of western societies. This was just what the new regime needed; by operating a journalist network, it put a lot of work into making itself presentable on the other side of the Iron Curtain. Although Hoffmann was expelled from Hungary as a trader, he did maintain his relationships with journalists. It was not only Lindner, but also Vienna press attaché Gerd Bíró who had good relations with 'Fabulous', and he was also still in contact with the ambassador to Vienna Sándor Kurtán, whom he knew from their years back in Berlin.[418]

417 The fact that, in the mid-1980s, he published a book about the theory and science of diplomatic negotiations, based mostly on his experience negotiating with the EEC and over GATT says a lot about János Nyerges' diplomatic competence. Nyerges 1986

418 ÁBTL 3.1.5 O-12344/5 p. 215 Transcript by the Intelligence Division III/I, 20 February 1963

ATTACK ON THE OMFB

Storm clouds

During the investigation against Emil Hoffmann, counterintelligence gathered plenty of condemning information on the Hungarian relations of the West German businessman. The investigators ultimately had to close the case against 'Fabulous' without conclusion. Since they could not hold Hoffmann to account, they could only have him expelled from the country with great difficulty. The thousands of pages of reports, and the tapped phones and surveillance, however, brought the spotlight down on the OMFB, János Sebestyén and his close, trusted people to be precise, whose illegal activities were very well-documented in the information gathered. The investigation, therefore, continued due to confidential information leaked on the Comecon, the business deals reeking of corruption, and the undue gains obtained in the process, but state security ran up against the same difficulty: the key players were untouchable. Instead, Sebestyén's right-hand man, Endre Simon, became the eminent target of the investigation as the scapegoat sacrificed by the foreign trade lobby and thrown to counterintelligence to keep them busy, thereby ensuring that the network could essentially continue to operate undisturbed. Counterintelligence had been gathering condemning evidence against Simon up until 1973, when he was eventually brought to trial.

Under the code-name of 'Fabian', the target Endre Simon knew Sebestyén back from the Ministry of Heavy Industry. They were already in close contact during his posting to Frankfurt and Simon blindly followed the instructions of the engineer he simply called Boss right until he was arrested. After the OMFB was established, he was in charge of import matters and "established and maintained extensive relations with Hungarian experts in senior positions in technical,

scientific, research, economic areas, in foreign trade and foreign service."[419] As the person at the OMFB responsible for import matters, he wielded significant power as he took over control of managing and initiating relationships with foreign companies following the foundation of the Committee. The Ministry of Foreign Trade normatively relied on the recommendations of the OMFB as it had to fulfil requests from the most competent advisory body in the country in technical and scientific matters. The western companies that came into contact with Hungarian foreign trade through the Committee enjoyed huge advantages. Their rivals had practically no chance against them.[420] In addition to having an increasing budget from year to year, the OMFB was able to accept deliveries free of customs duty, which meant an unbeatable competitive advantage for the western partners against the companies who did not enter the Hungarian market through the technical development body of the Council of Ministers. The majority of leaders at the Ministry of Foreign Trade were not exactly happy about these privileges, and conflicts arising from clashing competencies between the two institutions were commonplace, with the OMFB generally enjoying the upper hand.[421] Jenő Baczoni, the deputy minister for foreign trade, stood firm against Sebestyén when the latter put forward a draft proposal for wide-ranging cooperation with Siemens. He vetoed it successfully, at least for a while, so an extremely intense rivalry unfolded between them in the early 1970s.[422] The Siemens lobby, however, could not be stymied, even though serious conflicts of interests developed on the market, but let us go into more detail on these in the next chapter.

Over time, the circle controlled by Sebestyén enjoyed increasing autonomy, with some powerful individuals also helping them within the ministry. The scientific committee could not make purchases on its own but had to make use of the foreign trade companies holding various monopolies. These companies covered only a given segment of the market, so they had to submit orders to different companies to buy products of different types. This must have been

419 ÁBTL 3.1.5. O-15829/1, p. 41 Executive report, 23 June 1969
420 ÁBTL 3.1.9 V-160121/2, p. 28 Report, 10 August 1973
421 ÁBTL 3.1.9 V-160121/3, p. 92 Report, 27 July 1973
422 ÁBTL 3.1.9 V-160121/3, p. 99 Report, 3 August 1973

cumbersome, so they selected a company to deal with all of the OMFB's imports, regardless of whether the product was in the company's profile or not, and this partner was Transelektro.[423,424] The company's CEO at the time was Mihály Farkas (no relation to his namesake, Rákosi's defence minister), and it was a head of division called Sándor Udvardi at the Ministry of Foreign Trade who signed the ministerial order that appointed Transelektro as the OMFB's purchaser.[425] Udvardi was previously a member of the hardcore established around Sebestyén in Frankfurt and assisted his former boss' work from the Ministry of Foreign Trade after returning home.

Mihály Farkas was active as a military intelligence man. From the top job at Transelektro, he was transferred to the foreign trade office in Paris in 1968, where he became the superior of István Práczki, who served as an officer of military intelligence.[426] Farkas is therefore highly likely to have been a permanent officer of military intelligence, instead of helping the service as a committed source. At the helm of Transelektro, he established close business ties with the management of Siemens as OMFB's buyer. This paid off on his return from his mission in Paris when he was appointed manager of the company Sicontact, the representation office in Budapest, we will present in detail later.[427] In 1968, he was replaced by Gyula Sinka as Transelektro's CEO.

The OMFB was not even obliged to request counter-offers, at least according to a letter by the Ministry of Foreign Trade from 1966. Instead, it was essentially able to conclude agreements with any partner of their choosing without any competitive selection process. The letter was allegedly signed by a ministry official, but even state security dared not question the validity of the 'authorisation'.[428] At the Ministry of Foreign Trade, Sebestyén and the group around him had supporters other than Udvardi and the oft-mentioned János

423 Transelektro was in charge of the commercial dealings of the high-voltage industry.
424 ÁBTL 3.1.5 O-15829/3, p. 175 Conversation with Gyula Sinka, 22 May 1970
425 ÁBTL 3.1.5 O-15829/3, p. 183 Summary report, 29 May 1970
426 Práczki 2014, p. 173
427 ÁBTL 2.7.1 Daily Operational Information Reports (NOIJ) 1984-BRFK-140, 2 October 1984
428 ÁBTL 3.1.5 O-15829/3, p. 183 Summary report, 29 May 1970

Nyerges. Róbert Geist, a former employee at the Frankfurt office, smoothed the affairs of the OMFB from the office he held after returning from West Germany.

Róbert Geist was born in 1925 in Vienna, when his father fled to Austria after the fall of the Hungarian Soviet Republic in 1919.[429] The family returned home after Austria was annexed in 1938. Róbert Geist attended secondary school in Budapest, studying at a school for mechanical engineering. During the war, he served on the front as a forced labourer, before fleeing to join the Soviet troops. After the war, he was first a member of the SZDP (Social Democratic Party) and a member of the MKP (Hungarian Communist Party) from 1946 onwards. He studied at the National College of Economics in Moscow between 1950 and 1955, graduating with merit. He also stayed in Moscow during the revolution, returning home only in mid-November to immediately volunteer as an interpreter at the Soviet command centre in Budapest. He stayed at the occupants' headquarters until 1 January 1957, when he was transferred to the political department of the Budapest Police Headquarters as a detective.[430] In the summer of 1957, he left the force and moved to Technoimpex. From this point on, he was engaged in foreign trade as his main area of work. In 1958, state security did not have a recruited man at Technoimpex, so they were able to gather only very little information on the western trader and sales representatives who visited the company. With this in mind, they chose Geist to be their agent in the future. This boosted his career, so he was already in the Hague working as the secretary of the local trade office by 1960, before being transferred to Frankfurt in 1961. The four years he spent there were decisive for his career and success, and he became one of the key figures of the office apparatus supporting the foreign trade lobby. On his return home, Endre Simon was able to cover the dubious transactions of the OMFB at the Ministry of Foreign Trade with Geist's help: Geist continuously provided Sebestyén and Simon with information they could use against certain leaders at the Ministry of Foreign Trade.[431]

429 ÁBTL 3.2.1 Bt-751/1, p. 12 Recruitment proposal, 4 December 1958
430 Ibid.
431 ÁBTL 3.1.5 O-15829/4, p. 146 Report, 27 November 1970

Even though Geist was supposed to be an agent of the Ministry of Interior, he did not cooperate with them according to counterintelligence: "He always avoided having to work Hungarian targets, we doubt we will be able to use him in [the] 'Fábián' case [i.e. in the investigation against Endre Simon] this time round either. To our knowledge, he's had a good relationship with 'Fábián' for years, which would particularly hamper his usefulness."[432] They did indeed find little use for him and he did barely any work for state security from 1966 onwards. Eventually, he was struck off the network without being told.[433] The various reports prepared during the investigation against Endre Simon claimed that Róbert Geist was a close confidant of 'Fábián'. He covered for him and even influenced him, but there was nonetheless no investigation launched against him and his career remained unbroken. In 1982, Geist was already head of the Hungarian trade mission to Stockholm, which would have been unthinkable without an intelligence background. State security documents include a reference to MNVK-2 requesting Geist's dossier at counterintelligence in 1969 for review purposes, and there is also a hand-written note from 1963. This implies that he also had a dossier with an 'Mt' number with military intelligence, which was used to collect reports on persons recruited by the network.[434] In addition, counterintelligence also claimed to know that Geist signed a recruitment statement for military intelligence on 10 April 1959, but he was never used, at least to their knowledge.[435] Based on this, it is reasonable to assume that military intelligence had already secured Geist as a committed source during his stay in Frankfurt. This is how he ended up in the network that was being built around Sebestyén, which explains how he was able to work as a diplomat in the 1980s even though his relations with state security were broken off. As passive as Geist was as an agent according to the Ministry of Interior, he must have been all the more enthusiastic as a member of military intelligence, because he also acted on behalf of a company called Eurocom,[436] the first company established

432 ÁBTL 3.2.1 Bt-751/1, p. 71 Transcript, 1 April 1970
433 ÁBTL 3.2.1 Bt-751/1, p. 118 Report, 14 September 1984
434 ÁBTL 3.2.1 Bt-751/1, p. 130 Request form, 7 July 1963
435 ÁBTL 3.1.5 O-15829/4, p. 150 Report, 27 November 1970
436 Eurocom was registered in August 1972. Its task was to top up the budget of military

independently by MNVK-2. He is said to have outmanoeuvred the company Hunicoop[437] to obtain the exclusive representation rights for British Petroleum in Hungary for Eurocom.[438]

The OMFB acquisitions through Transelektro were not an extra burden for the company, since the employees of the Committee studied the selected goods from a technical point of view before they were purchased, and they were also the ones to determine the source of acquisition.[439] Due to the volume of these acquisitions, and also to keep publicity at a bare minimum when foreign trade rules were circumvented, a separate group was set up within the company to deal exclusively with OMFB matters. Its leader was Mrs Károly Jelinek, whose reliability and conspiratorial experience had long been proven as she was an officer of Gábor Péter's State Protection Office in an investigatory capacity.[440] In addition to the investigation against Endre Simon, Mrs Jelinek's name came up in state security documents with regard to economic crimes. In the 1960s, investigations were conducted against some of Transelektro's employees for unauthorised foreign trade activities, bribery, overpricing and mismanagement, yet they failed to establish Mrs Jelinek's hand in these crimes then or later, even though the data gathered compromised her.[441] Clearly, her family ties to the top party leadership made her well-connected, which is one of the reasons to

intelligence through its activities. The Ministry of Foreign Trade launched several investigations into its operations when the suspicion arose that they were dealing with a private company hidden behind a state facade. This was indeed true, but the service managed to prevent the screening reports from having any consequences. The founders of Eurocom may have known that the law governing the establishment of joint ventures would be adopted in the autumn of 1972, which is why they set the company up, with the help of which they feverishly commenced establishing companies in western countries from early 1973 onwards. Borvendég 2018, p. 58–74

437 Hunicoop coordinated cooperation in the machine industry. First and foremost, they were engaged in acquiring western licences and factory machinery. However, instead of regular trade transactions, they attempted to obtain the desired products as part of a cooperation deal. In other words, they paid the partner company by delivering Hungarian products.

438 ÁBTL 3.1.5. O-15829/8, p. 183 Evaluation report, 25 April 1973

439 ÁBTL 3.1.5 O-15829/3, p. 176 Statement by Gyula Sinka, manager of the Transelektro company, 22 May 1970

440 ÁBTL 2.1 XI/5 (V-150342/a) p. 38 Report, 12 August 1950

441 ÁBTL 3.1.9 V-151001/1–10 Case of József Ákos and associates

explain this. Her daughter's father-in-law was János Borbándi,[442] who was head of the Administrative Department of the Central Committee of the Hungarian Socialist Workers' Party during the investigation into the 'Fábián' case. He was also a member of the Defence Committee, which was the close defence cabinet of the Council of Ministers, and also as chairman of the Committee as deputy prime minister from 1974.[443] Representing the technical council, Endre Simon had a continuous working relationship with Mrs Jelinek and instructed her in how to carry out her duties. Tapped telephone conversations and surveillance suggest that they had a subordinate working relationship, "'Fábián' carried out his legally suspicious activities for the benefit of western countries in cooperation and in agreement with Mrs Jelinek, […] they worked together to develop their pricing policy and the rate of discount to be demanded."[444] Some of the business deals concluded through Transelektro, the agreements with Siemens in particular, must have resulted in major losses. According to the detectives, Mrs Jelinek helped cover this up by falsifying relevant data at the instructions of 'Fábián'.[445] By the time he realised that his previous allies were backing away from him, Endre Simon turned to Mrs Jelinek and her relative, Borbándi, whom

442 János Borbándi (1923–1994) was originally a mechanical fitter by occupation. He joined the Hungarian Communist Party in 1945. He was the party secretary at the Metal Hardware and Machine Tools Factory, and at the Lenin Kohászati Művek steelworks in Diósgyőr between 1949 and 1953, and 1953 to 1955 respectively. In the 1950s, he graduated from the University for Economics in Budapest, then from the party college in Moscow in 1958. He was first secretary of the party committee of District II of the Budapest Committee of the Hungarian Socialist Workers› Party between 10 December 1958 and 4 September 1961. From September 1961 until 1966, he was the head of the political division at the Ministry of Defence, deputy minister with the rank of major general. In 1961, he was appointed to the Military Council of the Ministry of Defence (HM), before being elected member of the Central Control Committee (KEB) of the Hungarian Socialist Workers› Party. From 3 May until 3 December 1966, he was the deputy head of the Administrative Department of the Central Committee, then its head until 1974. He was Deputy Chairman of the Council of Ministers from 21 March 1974 until 6 December 1984. He was also a Member of Parliament between 1963 and 1967, and a member of the Central Committee of the Hungarian Socialist Workers› Party from 1970 until 1985. He lived in retirement from 1985 until he died in 1994. Library section of the Committee of National Remembrance (NEB)

443 Germuska – Horváth 2020 (Pending publication)

444 ÁBTL 3.1.5 O-15829/3, p. 99 Proposal, 9 March 1970

445 ÁBTL 3.1.5 O-15829/6, p. 134 Report, 26 October 1971

he knew well personally, for help, but they turned their backs on him.[446] The decision to foist the whole affair on Endre Simon was probably made to dissipate the storm clouds over the heads of the members of the interest group.

The Siemens lobby

By the late 1960s, computer technology had become the cornerstone of technological development: the Eastern Bloc started to work on a joint strategy in order to harmonise the work of the scientists in the 'sister states'.[447] The OMFB, of course, played a pivotal role in fulfilling the tasks given to Hungary. When it came to purchases and concluding cooperation agreements, it was impossible to circumvent the advisory body, which continued to clearly favour Siemens.

Regarded as the start of computer technology, punched card data storage technology had already spread in Hungary between the wars, when IBM's predecessor opened a subsidiary in Hungary in 1936.[448] The company's building burned down during the war, but it was rebuilt soon thereafter. Essentially, IBM continued to store and process statistical data in Hungary using IBM's machines. As a consequence, the American firm was spared the fate of the western companies that fell victim to nationalisation: IBM was allowed to operate undisturbed in Hungary during the times of the full-blown one-party state dictatorship. This is all the more surprising as this technology was used to process the country's data of strategic importance: the Central Statistical Office used such machines, while the officials at the Ministry of Interior and the analysts

446 ÁBTL 3.1.9 V-160121/3, p. 100 Report, 3 August 1973

447 The fact that the Standing Military Committee of Comecon announced, at its meeting in May 1973 in Budapest, its intention to develop and manufacture a variety of equipment and components (small and micro-computers, data communications equipment, cathode-ray-tube visualisation tools, punched tapes, magnetic memory, cassette magnetic tape peripheries and information storage devices, automatic detectors and data communications and display equipment), clearly illustrates Hungarian interests. Germuska 2010, p. 154

448 Bodnár 2002

of the secret service also used equipment developed by IBM. The communist regime tolerated the company's presence as there was no alternative to IBM's technology for some time, and the engineers of the subsidiary were able to find a way around the difficulties imposed by the embargo by manufacturing some of the simpler components themselves. Until 1967, IBM practically ruled over the computer technology market in Hungary, a monopoly the leadership of the OMFB wished to break by importing products offered by European companies. The strongest argument to clamp down on IBM was that the increasing use of electronic computers would make the country completely dependent on the United States. The argument seems logical, but it was highly unlikely that the process could be hindered. After 1959, Hungary did buy computers from European countries, but this did nothing to ease dependence on the US, because the purchased equipment performed poorly and was often outdated, so the IBM machines could not be replaced.[449] In the 1970s, the Hungarian subsidiary of the American firm was headed by a businessman of Indian origin called Dhurjati Sesha Saye. One of the reasons he was picked may have been the fact that, as the leader of the Non-Aligned Movement, India was trying to strike a balance between the two world orders. Behind a facade of declaring neutrality, however, it was actually leaning towards the Soviet Union for reasons of security policy (its main enemy, Pakistan, was in the US camp). A Treaty of Peace, Friendship and Cooperation between the two countries (India and the Soviet Union) was signed in 1971. Support for the electoral victory of the Indian National Congress Party that remained in power for almost the entire period of the Cold War and flirted with the Soviets can be considered a common political interest of the Eastern Bloc, so Hungary also took part in financing India's ruling party. Saye was therefore not fundamentally treated with hostility in the countries of the Bloc, he himself tried to strike a friendly tone by stating that "he finds the dispute between India and Pakistan to be artificially inflated, he condemns violence. He emphasises that he is committed to socialism, since socialism is being built in India, too."[450] Saye was in contact with the representatives of

449 ÁBTL 3.1.5 O-15829/3, p. 199 Summary report, 29 May 1970
450 ÁBTL 3.1.5 O-15829/7 p. 129 Information report, 6 June 1972

Hungarian foreign trade companies and the companies using these computers, and yet, in spite of his nexuses, János Sebestyén was still able to break IBM's monopoly: Siemens also decided to enter the business of producing computers, and the interests of the circles controlling the OMFB dictated that it was the West German technology that should be popularised in Hungary. Their main argument was that this rate of US influence must be stopped. This reasoning was rather weak, however, as the manufacturing of computers in Europe was based on American licences.[451] Given that huge allocations were made for the developments in the budget, the stakes, however, were high.

Harmonised work to develop a single, compatible range of computers, the Unified Computing System (ESZR), began in 1967. In Hungary, Government Decree 10125/1968 established the Interministerial Computer Technology Committee, which was in charge of elaborating the development programme, and developed and monitored the policy to purchase licences. The senior leaders of the Committee included Árpád Kiss, chairman of the OMFB, engineer Zsolt Náray, who was the mastermind behind creating the unified computing system, and János Sebestyén, while the members of the Committee included senior officials from the Ministry of Foreign Trade, the Ministry of Finance, the Ministry of Metallurgy and Machine Industry (KGM), the National Planning Office and the Central Statistical Office. The smallest product in the computer range to be developed in the interests of creating the Unified Computing System had to be manufactured in Hungary. This significantly benefited Videoton, who would later develop and manufacture the products, as it made it easier for the company to branch out into the world of mini- and microcomputers.[452] Implementation was planned to take place over seven years from 1969 to 1975 in an attempt to catch up to the development levels in computer technology of the moderately developed European capitalist countries. The costs were estimated to total 10 billion forints.[453]

451 ÁBTL 3.1.5 O-15829/3, p. 180 Summary report, 29 May 1970
452 Baráth – Kázsmér – Ujvári 2013 p. 123.
453 ÁBTL 3.1.5 O-15829/3, p. 180 Summary report, 29 May 1970

The news that the programme would be launched naturally ignited a fight among western companies to lay claim to the market, and, according to the information of state security, corruption was noticeably present in the competition process: the western companies manufacturing computers were outbidding one another to win the favours of foreign trade companies and their leaders in charge of such imports. Foreign trade deals and thus the selection of the technology to be purchased were entrusted to the OMFB. Sebestyén was, nonetheless, intent on favouring the system of nexuses he had established during his posting to Frankfurt and that had been expanding continuously ever since. It was primarily Siemens he wanted to promote, which made major waves in economic circles. Stakes were high, i.e. the available budget was huge, so even those who had been previously sidelined by Sebestyén wanted a share of the deals. Theoretically, Metrimpex was supposed to be in charge of the acquisition of computers, but, as we learned previously, the technical development council made sure through its contacts at the Ministry of Foreign Trade that Transelektro was in charge of OMFB purchases, regardless of the product itself. Taking advantage of the western interest in the eastern computer development programme, Metrimpex was involved in some serious negotiations with Honeywell and achieved a 30 percent discount with the British company. This also had a major impact on the purchases from Siemens. The West German firm was reluctant to give up its positions in Hungary to the British, so they, too, were ready to give a discount of the same rate. According to the information of counterintelligence, the success of Metrimpex was referred to as a deterrent example, saying that the discount given by Honeywell was considered by the Hungarian partner as a given from this point on, and insisted on these terms also when making later purchases.[454] However, it was not the British electronic industry, but the interest group around Sebestyén that would have been hit the hardest, as this would have taken control of computer acquisition out of their hands. Endre Simon circumvented Metrimpex on the grounds that "he was not going to work with Metrimpex because they keep putting pressure on the

454 Ibid. p. 182

foreigners for discounts, thus discouraging them from cooperation to begin with, and are also wasting time with negotiations, making deliveries by the set deadline uncertain,"[455] and eventually ordered the Siemens computers through Transelektro. The previously mentioned instruction issued by the Ministry of Foreign Trade, which authorised Transelektro's purchases and gave the OMFB the opportunity to make purchases without competition, permanently removed the obstacles to the deal. In the end, the deal was struck by Sebestyén and a Siemens manager of Hungarian origin named Pál Dax, guaranteeing a discount of 15 percent. The OMFB did not change its aggressive tactics later either, and "seized every opportunity to prevent Metrimpex from making deals with Siemens under better terms than those enjoyed by Transelektro, because every percentage point of difference proved the shortcomings of the OMFB-Transelektro contract."[456]

Pál Dax went to school in Budapest, was awarded a doctorate in law and began his professional career at the Siemens office sometime in the 1930s.[457] Here, he worked together with Mihály Farkas, who promoted Siemens' interests in Hungary as Transelektro's general manager, and cooperated with the OMFB to circumvent foreign trade laws. In 1944, Dax was transferred to Austria and stayed there working at Siemens' local companies. According to information from state security, he played a strategic role during the negotiations between the company and the Allied Control Commission, for which he was later held in high esteem. Using his local knowledge, Pál Dax expanded the company's interests in Hungary after the war.

For Siemens, Hungary presented a marvellous opportunity to find customers for computer products that were still uncompetitive in western markets; it wasn't until the second half of the 1960s that the German company started to manufacture its own computers developed in house. These lagged way behind US technology, and were inferior even to British and French models, delivering worse performance at much higher prices than their

455 Ibid. p. 183
456 Ibid. p. 185
457 ÁBTL 3.1.9 V-160121/2, p. 185 Confession by Endre Simon, 28 September 1973

competitors.[458] Yet, the employees of the Győr Wagon and Machinery Plant revealed in a status report to the Police Headquarters of Győr-Sopron county details of how they were forced by the OMFB to purchase Siemens computers, even though IBM products would clearly have been more appropriate.[459] They listed arguments to support their choice, all of which appear quite compelling to the outsider. Near the top of the list was the consideration that engineers with Hungarian citizenship were employed at IBM's subsidiary in Hungary. They lived in the country and so were able to provide continuous technical support to the operation and tackle any technical problems as they arose. In addition, big European carmakers that the Győr plant had a licence agreement with,[460] including MAN, were using IBM computers, and cooperation among the companies promised to be smoother if they all used the same technology. The provision in the company's draft agreement that the delivered equipment could not be used for military purposes also weighed against Siemens. The wagon plant attempted to persuade the decision-makers by pointing out that they were not able to undertake such obligations as the facility also manufactured armoured vehicles for the Hungarian People's Army and other allied armies. Theoretically, western companies were not allowed to sell products to the East for direct military use, so deliveries were officially either recorded as intended for civil use only, or they made their way into the Bloc illegally. In other words, it made no difference whether the importer agreed to undertake such a commitment or not. The OMFB was not convinced by these arguments, of course; with the economic interests of the country in mind they countered that it is worth buying goods from a manufacturer we can export Hungarian industrial goods to in return. Siemens was open to this opportunity, IBM was not. The people at the plant in Győr reckoned that "this is such a low-

458 ÁBTL 3.1.5 O-15829/2 p. 103 Evaluation report about Siemens computers, 7 August 1969

459 ÁBTL 3.1.5 O-15829/2 p. 59–69 Status report, 23 June 1969

460 In the mid-1960s, the Ministry of Metallurgy and Machine Industry requested offers to establish an engine plant and obtain an engine licence from several western companies. An agreement was eventually concluded in 1967 with the MAN-Renault-Ferrostaal consortium that made the best offer and was willing to accept Hungarian goods as payment to a higher extent than its competitors. Germuska – Honvári 2014 p. 54

ranking consideration in trade policy that it should not account for the missed opportunity to import the latest technology to Hungary as soon as possible."[461] The OMFB still opted for Siemens.

The spectacular expansion of the West German conglomerate Siemens into Hungary can clearly be attributed to Sebestyén's years in Frankfurt. At the same time, however, Siemens' increasing market share in the country cannot be regarded as a unique situation: in 1971 a cooperation agreement was made between the company and the Soviet Union for the exchange of expert delegations and for joint manufacturing based on Siemens licences.[462] (This may also indicate Soviet support behind János Sebestyén's extraordinary soft power.) It was only later, in 1973, that Siemens and the OMFB signed the framework agreement governing the terms of technical and scientific cooperation between the parties, and establishing a body to meet annually to coordinate cooperation. Needless to say, János Sebestyén was appointed to head the body.

The group also helped Siemens establish companies to increase its market share in Hungary, with this support provided by Intercooperation Kereskedelemfejlesztési Rt. Intercooperation was co-founded by the Ministry of Foreign Trade, the OMFB and several trading and industrial companies, primarily to set up cooperation projects and establish joint ventures, and to conclude licence and know-how agreements.[463] Apart from electronics firms, it also covered heavy industry and the chemical industry. From its founding in 1968, the company limited by shares played an active role in procuring sensitive technologies for the Eastern Bloc. It was also used during the establishment of various joint ventures to lessen the impact of the state's role and to make it easier to gain the trust of the western partners. Intercooperation was for a long time headed by György Oblath, who played a part in the late 1940s in the aforementioned Swiss network under János Nyerges' control and guidance. Oblath, who started his career as an agent of the Ministry of Interior, clearly worked for military intelligence as the trade

461 ÁBTL 3.1.5 O-15829/2 p. 67 Status report, 23 June 1969
462 Sebők 2017 p. 138
463 ÁBTL 3.2.4 K-3000 p. 180 Note, 22 January 1979

adviser to Rome before taking the top job at the company after returning from Italy in around 1973-74.

"On 3 October 1972, finance minister Lajos Faluvégi and Paul Dax, a member of Siemens AG's board of directors, agreed that Siemens would participate in a Hungarian joint venture as the first of the big western corporations to do so. Only a few weeks after their meeting, Hungary authorised the establishment of joint ventures with foreign participation, thereby allowing the influx of foreign direct capital,"[464] according to a book on Siemens' operations in Hungary. All this suggests that Siemens massive expansion into Hungary played an essential role in bringing about the decree allowing the establishment of joint ventures. It was in the very best interests of the foreign trade lobby to start establishing firms in the West. In the annual reports of the Hungarian Foreign Trade Bank, István Salusinszky, one of the strongmen of the interest group and president of the bank, consistently argued in favour of the necessity to allow joint ventures. These documents aptly show how they slowly but steadily achieved this aim.[465] In reality, the 1972 Decree did not facilitate the influx of foreign direct capital, but its outflow. In simple terms and as we have mentioned earlier, western investors were only allowed to set foot in Hungary on very limited terms until 1977. In 1972, the establishment of firms with Hungarian shareholdings was authorised in the capitalist world. This was one of the reasons why it was difficult to strike the aforementioned deal: joint ventures were only enabled in Hungary in 1974.

The Budapest-based Siemens Computer Centre and Coordination Office, Sicontact, was the first Hungarian joint venture established after the war and was set up by Siemens AG and Intercooperation Rt. While the MKB listed Sicontact as a company it founded,[466] the bank was not officially included as an owner on the Hungarian side. For the West German partner, it would presumably have been less reassuring to have a socialist state-run bank as a co-owner, and so a company limited by shares was designated as the main

464 Sebők 2017 p. 142
465 Borvendég 2017 p. 52–54
466 Kövér [2001], p. 29

player in the cooperation. Sicontact was founded with share capital of 8.5 million Hungarian forints, which was continuously increased over the years to eventually exceed HUF 82 million in 1988.[467] The office had 44 employees, including three West German citizens.[468] Sicontact primarily (and officially) focused on preparing and implementing partnerships between Siemens and various Hungarian companies, while also carrying out maintenance, organising training, and assisting with planning and development. Accomplishing the cooperation with Siemens was important not just because this was the best way to ensure that the most modern technology developed by Siemens found its way into the country (when conducting simple trade deals, there was a better chance of phased-out products being given to the Hungarians), but also because it meant that Hungarian engineers, local specialists trained by the manufacturer, performed the servicing of the Siemens computers used by institutions in areas that state security considered sensitive. Sebestyén therefore ensured that the only seemingly irrefutable argument in favour of IBM Hungary slipped through his opponents' fingers. Sicontact was crucially important in acquiring products on the COCOM list by supplying products to both civilian and military intelligence. Its Hungarian director in 1980 was Ottó Haár,[469] who was recruited in 1954 by the intelligence department of the Ministry of Interior when he was sent to Yugoslavia for trade talks as an employee of Nikex.[470] In later years, he also worked at various trade offices, where he was used alternately by the Ministry of Interior and MNVK-2. In 1958, military intelligence requested his transfer from the Ministry of Interior,[471] then, before his placement in India, he officially returned to the Ministry of Interior in 1962 because intelligence and counterintelligence both wanted to use him at the trade office.[472] In 1969, he was sent to Kenya, but, according to civilian intelligence there, he did not carry out his secret service

467 Sebők 2017 p. 142
468 ÁBTL 3.2.5 O-8-475 p. 14 Report on the Siemens AG case, 28 February 1980
469 ÁBTL 3.2.5 O-8-475. 13. Report on the Siemens AG case, 28 February 1980
470 ÁBTL 3.2.1 Bt-2331. 36. Recruitment proposal, 9 July 1954
471 ÁBTL 3.2.1 Bt-2331. 81. Service request, 2 May 1958
472 ÁBTL 3.2.1 Bt-2331. 86–87. Training plan, 14 August 1962

tasks with enough enthusiasm, and deliberately failed to disclose his contacts, so he was excluded from the network in 1971.[473] His activities related to the military are as yet unknown, but it is hard to imagine that anyone without an intelligence background could have been appointed to head a company partially under western ownership, so it is safe to assume that he continued to work for military intelligence even though he severed ties with the Ministry of Interior. Mihály Farkas, who had fervently advocated the growth of Siemens' market share as the director of Transelektro, returned from his placement to Paris in the first half of the 1980s to take over the leadership of Sicontact. From this point on, there is no doubt the company fell under the competence of MNVK-2.

Aimed at modernising machine data processing, the Titan programme at the Ministry of Interior was put in place in 1968 to replace the obsolete and slow punched card technology with new computer systems. This also contributed to making Siemens computers more widespread in the 1970s.[474] As part of the programme, in 1972 the Ministry of Interior purchased a data processing system developed and built by Siemens, and which needed a separate building to house it. The establishment of Sicontact tackled the issue of spare parts supply and servicing, and thereby enabled Siemens to distribute its computers across the country unhindered. Siemens equipment was purchased for a number of institutions from the Central Statistical Office and OTP Bank to the Ministry of Finance. Between 1971 and 1973, so before the cooperation agreement was signed, the German firm was able to sell 11 computers in Hungary.[475] This figure clearly improved once the agreement was signed and Sicontact was founded.

During its investigation against Endre Simon, counterintelligence focused primarily on the cooperation with Siemens among the suspicious deals made by the OMFB. The documents reveal the background to the OMFB-Siemens framework agreement signed in 1973. After his arrest, Simon shared his cell

473 ÁBTL 3.2.1 Bt-2331. 121. Recommendation, 6 May 1971
474 Cseh - Tóth 2017, p. 33–34
475 Sebők 2017 p. 144

with a detention intelligence agent who gained the trader's trust and coaxed a lot of information out of him. According to Simon, the details of the cooperation were discussed with the competent officials of the Ministry of Foreign Trade in May 1973, before the framework agreement was made. The meeting was chaired by Péter Vályi,[476] Deputy Chairman of the Council of Ministers, who played a major role in elaborating the new economic mechanism deputising for the minister for foreign trade. Deputy minister Jenő Baczoni protested angrily against the signing of the agreement. The outcome of the meeting was that the Ministry of Foreign Trade did not support the OMFB's draft agreement, which allegedly made Sebestyén lash out angrily against Baczoni and those who shared his views: "Sebestyén was furious, he had a wild outburst and even wrote a letter to everyone who opposed his plan."[477] Despite this, the framework agreement was concluded soon afterwards. We also know that the Soviets had signed a similar cooperation agreement with Siemens previously, so the chances of Sebestyén's initiative being successful were already high, since it must have enjoyed support from 'Big Brother'. Several months later, Péter Vályi died in an unfortunate accident: during his factory visit to the Lenin Kohászati Művek steelworks, he was escorted to an area of the factory (the planks running along directly next to the furnaces), where civilians were not normally permitted to enter. Several incomprehensible circumstances of the tragedy are cause for speculation to this day.[478] The central assumption

476 Péter Vályi (1919–1973) graduated as a chemical engineer in 1942. He was a member of the Communist Party from 1945. From 1948, he was a rapporteur of the National Planning Office in addition to being a lecturer at the University of Economics. Vályi became the general manager of Chinoin in 1953 and was a senior official at the Ministry for Heavy Industry from 1954. Between 1955 and 1967, he worked as the deputy chairman of the National Planning Office and was finance minister from 1967 to 1971. In 1971, he was appointed Deputy Chairman of the Council of Ministers. In September 1973, he visited the Lenin Kohászati Művek steelworks, where he fell to his death beside one of the furnaces.

477 ÁBTL 3.1.9 V-160121/3, p. 99 Report, 3 August 1973

478 No exploratory work based on historical research has been performed to this day with regard to Péter Vályi's death. This is not likely to occur in future due to an absence of sources, but a lot of studies have been published taking a position for or against the conspiracy theories revolving around the strange accident involving the economic politician. Two examples from these papers: Máté Fábián rejects the possibility of the accident being intentional (Fábián 2014), while Sándor Balázs György refuses to rule it out. (György 2015)

of the legends around the accident is that Vályi was also one of those who were committed to the new economic mechanism, as did György Péter, who also died four years earlier under unclear circumstances.[479] This book cannot afford to jump to conclusions, but it is clear that Vályi opposed the foreign trade lobby and belonged to a group with opposing interests. We also know that, although the financial-economic interest group put strong pressure on the members of the government to allow the foundation of joint ventures from the mid-1960s, the decree of the Ministry of Finance was issued only after Vályi resigned from the top job at the Ministry.

Regarding the deputy minister's accident, it is worth mentioning that Sándor Énekes, the general manager of the steelworks in Diósgyőr, who tried to grab Vályi and fell between the furnaces himself but survived the horrific incident, was a pawn in the foreign trade lobby's game of chess. Énekes assisted the abuse committed by Metalimpex in 1969, when it entered into a contract to manufacture tungsten steel, causing immense damage to the people's economy. There has already been a brief mention of the information that came to light during the investigation against István Dévai in 1974. During the investigation, state security raised the culpability of Énekes, who had already been removed from the top job at the steelworks as a result of Vályi's accident, but the statute of limitations had expired so those actually responsible remained unnamed. István Dévai, one of the masterminds behind the deal, was a committed source of MNVK-2 and was serving in Frankfurt when Sebestyén headed the trade office there. After returning home, he accumulated hard currency for military intelligence and transported secret money between the trade office in Rome and secret bank accounts in Switzerland. By exploiting the joint ventures founded by Metalimpex, he played a part in building the western offshore

479 By this time, three of the politicians and economic experts supporting the new economic mechanism had already committed suicide. In the case of György Péter, that was the impression they tried to give at least. György Péter, the president of the Central Statistical Office, Károly Erdélyi, head of the Foreign Affairs Committee of the Central Committee of the Hungarian Socialist Workers' Party, and András Tömpe, a diplomat and officer of the Soviet secret service, killed themselves on 4 January 1969, 19 March 1971 and 25 December 1971 respectively.

network, while he circumvented foreign trade on numerous occasions as a member of the management of Eurocom, a firm established by the secret service. In addition, he had a close relationship with Endre Simon, who was in charge of OMFB affairs, as well as Simon's boss, János Sebestyén.[480] The irregular deal involving the Lenin Kohászati Művek steelworks was obviously concluded on behalf of the interest group behind it. The tungsten steel case was covered up in 1969, but the network sacrificed Dévai five years later, just as it did Simon. After the 'Fábián' case was closed, counterintelligence also regarded Dévai as a suspect based on the compromising evidence revealed during the investigation, and he was convicted a year later. They were both sacrificed by the network, you could even say they took the fall, while those counterintelligence was unable to take action against survived the investigations without so much as a slap on the wrist. During the investigation against Dévai, the Diósgyőr corruption case from five years previously came onto the radar of counterintelligence, who attempted to ascertain how much damage those involved actually caused and who was responsible for the whole affair. It was revealed that the employees of the steelworks reported the contract to the county authorities immediately after it was signed, but the investigation documents dating back to the time could no longer be found when Dévai was exposed in 1974, as "according to oral communication from Division III/II, the relevant materials were destroyed – under orders."[481] Unfortunately, there is no indication in the source regarding who ordered the documents to be destroyed. The only contemporary document dates back to March 1970, in which the police only expressed stated regarding the case that "you can expect some risk associated with every deal,"[482] even though the risk apparent at the time when the agreement was signed exceeded the usual risks by far, and the damage caused was untold. As a result, the case was swept off the detectives' desk in 1970 at the order of someone very high

480 Borvendég 2018

481 ÁBTL 3.1.9 V-160338/9 Request by Counterintelligence Division III/II of the Ministry of Interior to László Kondi, Police Lieutenant Colonel, head of the Division III/II of the Borsod County Police Headquarters, 14 March 1974, p. 9

482 ÁBTL 3.1.9 V-160338/9 LKM steelworks alloy-steel deal, 11 March 1970, p. 7-8

up the chain of command, but counterintelligence tried to reconstruct what had happened four years later. To establish responsibility, they focused on Sándor Énekes, former director of the steelworks, whom they would have brought to court had the statute of limitations not run out in 1974. Sándor Énekes worked for the foreign trade lobby, for István Dévai to be precise, who was in direct contact with the OMFB, as well as the group that was operating within military intelligence and enriching itself by illegal means. This group was firmly opposed to those committed to the new economic mechanism, including Péter Vályi. In addition, Vályi travelled to the USA not long before his death as the first high-ranking Hungarian political leader to do so. This reinforced his affinity to the USA, and he continued to lobby strongly for an improvement in Hungarian-US economic relations. Sebestyén and Simon were suspicious of Vályi's intentions to help American firms gain markets in Hungary. This is implied by the fact that the Ministry of Interior ordered a search of Endre Simon's workplace after he was arrested and a report was made of the irregularities detected. The Ministry of Interior was always highly aware of the shortcomings of the TÜK secret document management system, so they registered and archived documents from the 'Fábián' dossier that had not been managed properly. We know that one of the thorniest questions for counterintelligence during the investigation against Emil Hoffmann was how the German journalist got his hands on information on Comecon that was believed to have been confidential, and the evidence clearly led back to the OMFB, and to Sebestyén. When his house was searched in 1973, copies of classified materials were recovered from Simon's drawers, including drafts, blueprints and descriptions mostly of large technical investment projects, such as the conditions for the development of the scientific foundations required to establish the Paks nuclear plant, and the documents specifying the locations of the substations for the high-voltage power lines planned between the Soviet Union and Hungary, and related operation issues. There was a note among the seized documents that was copied by Róbert Geist for Simon, making sure to omit the 'classified' (tük.) label, or, as the Ministry of Interior put it: "he de-TÜK-ed it". The note was entitled *Topics to be raised with regard to the negotiations of Comrade Vályi in the USA*, which set it apart from the other

documents related to investments and containing technical specifications.[483] Unfortunately, this document was not included in the investigation dossier, so all we can establish is that Sebestyén and his associates were preoccupied by Vályi's trip to the USA, and the potential ramifications thereof.

Péter Vályi's role and his relationship with the individual members of the lobby highlight yet another connection that merits further consideration regarding the enmity between the financial interest group and those committed to economic reform, and paints a more nuanced picture of the reasons for the failure of the new mechanism.

Ties running deep

In the summer of 1973, Endre Simon was arrested. He was interrogated, his cell was bugged and a detention intelligence agent was assigned to him in order to gather evidence against Sebestyén and his circles. In the beginning, Simon tried to protect his boss and said little. Before long, however, he realised nobody was going to help him, so he began to make more and more detailed confessions to save himself and implicate his superiors instead. During his interrogation, he confirmed the conclusions drawn by state security during the secret investigation: "As shown by later practice, Sebestyén and the persons mentioned [i.e. Róbert Geist, István Dévai and Sándor Udvardi] paved the way through their relationships built during their stay in Frankfurt for various West German firms to later enter the Hungarian market, and to further strengthen their position later on. Until 1962, when the OMFB was established, there were few opportunities for this, but more and more avenues started to appear with the OMFB around. […] Given that the so-called club members, the West German firms and their representatives with whom they had relations since Frankfurt, were inquiring continuously, efforts to favour the bids by these firms

483 ÁBTL 3.1.9 V-160121/2, p. 26 Report on the case of Endre Simon, 10 August 1973

and representatives were apparent at the OMFB under Sebestyén's leadership. […] The direct method or form of support mean that the requirements and orders of Hungarian companies or institutions are financed fully or in part by the OMFB provided that they place such orders with a given western or West German firm, a club member."[484]

Simon handed over a plethora of information, names of firms and a map of contacts to his interrogators. After a while, he attempted to save himself by downplaying his own role to that of an agent. In his version of the story, he was merely used to do their dirty work for them, but the masterminds behind everything were actually Sebestyén and Geist. Counterintelligence did not and could not do anything about the majority of the connections emerging *en masse* as this would have resulted in holding Sebestyén to account, which they had to avoid – this much had already become clear to them in the course of the investigation against Emil Hoffmann. Consequently, the present-day researcher is unable to insert the majority of names and stories that emerged into a network of connections (for now). We lack fundamental information that could have been gathered easily during the investigation, and finding this information in the present day has been reduced to a matter of sheer luck. We read in Sebestyén's confessions, for example, that the commissions and gifts from foreign companies were forwarded to Sebestyén through a West German firm called Berma. Sebestyén allegedly kept in touch with the firm through his daughter, who married and moved to West Germany, and her husband, who belonged the senior management of Siemens.[485] What is interesting about this statement is not the family connection, but the mention of the company Berma. However, we learn nothing else from the investigation documents; it seems that the investigators were treading carefully not to have to charge Sebestyén with corruption, so they deliberately did not ask further questions regarding the company acting as the intermediary and its ownership structure. Good fortune, however, came to the aid of the researcher here, as Berma is not completely unknown to us.

484 ÁBTL 3.1.9 V-160121/2 p. 226–227 Minutes of Endre Simon's interrogation, 11 September 1973

485 ÁBTL 3.1.9 V-160121/2, p. 28 Report, 10 August 1973

In 1983, a joint venture called Berma-Wien was established in Vienna. It was 51 percent owned by Mineralkontor and 49 percent by Technoimpex, at least according to a doctoral thesis from 1987.[486] The form of the name suggests that Berma-Wien was probably a subsidiary, the Vienna branch of a parent company operating under a similar name. One of the owners, Mineralkontor, was founded in Vienna in 1973 by Mineralimpex and an Austrian firm called Baustoffimportkontor a few months after the decree allowing joint ventures was issued. Mineralkontor was managed by the directors of the founding companies, István Russay and Heinrich Korzil, and Berma-Wien was also managed by Korzil. Mineralkontor was the company used to commit probably the largest fraud during the operation of the foreign trade lobby, when it re-exported oil from Iran to the United States right into the 1980s. By selling on the Iranian oil to the concern operating the largest private oil refinery in the USA at a loss of 10 percent, they inflicted damage of hundreds of millions of US dollars on the Hungarian economy, contributing heavily to the country's high level of debt.[487]

Berma-Wien's main activity consisted of various assembly operations, and it became involved in the work carried out by Austrian firm Voest-Alpin in the Soviet Union, during which it was entrusted with assembling an entire metallurgical plant.[488] One of the prerequisites for fulfilling the contract was for Berma to send roughly 100-150 people to the Soviet Union, and counterintelligence noted that this essentially gave Heinrich Korzil, the managing director of the company, a complete overview of the investment.[489] This appeared incomprehensible to the Hungarian secret service as it was the Counterintelligence Department of the Southern Group of Forces (DHCS) of the Soviet Army itself, stationed temporarily in Hungary, that requested its Hungarian counterparts to keep the Austrian businessman under surveillance in the late 1960s. This was because Korzil was working in the capital under occupation as an agent of American

486 Vajna 1987, p. 98.
487 Borvendég 2017, p. 111–160.
488 ÁBTL 2.7.1 NOIJ 1983-III/II-233, 29 November 1983
489 Ibid.

intelligence until the signature of the Austrian State Treaty in 1955: using the code-names of 'Karl' and 'Heinc', he collected military, political and economic data for the allies. Just like so many of the figures in this book, Heinrich Korzil reportedly served as an SS officer during the war,[490] before being captured as an America POW. In various camps, he made a wide range of acquaintances, thanks to whom he had very good links to various US companies, especially those exporting coal.[491] In view of this, Hungarian counterintelligence had every reason to find the Soviets' trust in Berma-Wien inexplicable, but this was not the only episode Hungarian counterintelligence was baffled by. According to official data, Berma-Wien had a turnover in 1986 of 158 million Austrian schillings, and it assumed from Technoimpex the exclusive right to sell machine tools in Austria in 1987.[492] Yet the impressive figures are misleading: according to a state security report from 1985, Berma had been making losses for years and the owners endeavoured to keep it afloat by "Technoimpex using it for its Hungarian imports to avoid further losses, for which it pays Berma a commission of 10 percent, making procurement more expensive for the People's Republic of Hungary."[493] So the turnover figures comprise the business outsourced from Technoimpex, which generated significant losses for the country due to the commissions associated with its dealings.

The name Berma popping up in the network around Sebestyén seems to be directly linked to the foreign trade lobby's biggest business deal, the misuse of Iranian oil, which brings us to the financial-economic interest group of the 1980s, and the manipulators of the years running up to the change in political system. During his placement in Frankfurt, János Sebestyén entered the system of nexuses that was masterfully built by his predecessors, particularly Károly Junger, who revived and developed it further. Through the OMFB, he turned corruption into a business and raised it to the state level using the privileged companies.

490 ÁBTL 2.7.3. Szakelosztó 6-7/170/88, 7 April 1988
491 ÁBTL 3.1.2 M-23641. 19. Report, 19 September 1957
492 Vajna 1987, p. 98.
493 ÁBTL 2.7.1 NOIJ 1985-III/II-153, 14 August 1985

By early 1973, the investigation by state security could have become cumbersome for those who controlled the OMFB, and it was becoming increasingly clear that both Sebestyén and Geist had withdrawn their support for Endre Simon, who was selected as the scapegoat. Regarding the business negotiations conducted from this point on, it was subsequently emphasised that Simon took advantage of Sebestyén's illness by acting independently and based on his own business ideas on behalf of the Technical Committee, without his boss even knowing.[494] Simon's telephone and office were tapped by counterintelligence, from which it emerged that he was truly determined to represent Siemens' interests. That said, we are discussing the period just before and after the signature of the framework agreement, which was a framework agreement signed with Sebestyén's approval. What is more, it had the support of the upper echelons of politics and the Soviets, so it is obvious that Simon's business negotiations were definitely not his own private rogue operation. This is more likely to have been about the investigation that dragged on for over a decade and which began with the gathering of information against Emil Hoffmann during Sebestyén's placement in Frankfurt back in 1959, and which also accompanied the establishment and early years of the OMFB. This must have become extremely inconvenient by the early seventies and had to be stopped one way or another. Endre Simon was blissfully unaware of all this. His telephone conversations with the representative of Siemens AG, recorded by state security, clearly show that he was confident in the belief that he had his powerful boss' full support: "This is practically going to be a base. Let me spell it out for you. In Hungary, the OMFB will first sign a contract with all the directorates at Siemens. This is intended to address issues related to the scope of responsibility relating to the Ministry of Foreign Trade, the Ministry of Finance, and the Ministry of [Metallurgy and] Machine Industry, and we will be representing the entire matter in the different areas, but we will, of course, let you handle implementation. A budgetary committee will be set up to take care of illegal or semi-legal matters, keeping the interests of both parties in mind.

494 ÁBTL 3.1.5 O-15829/8. 115. Evaluation report, 22 February 1973

This enterprise will be the first of its kind. Siemens has one [an agreement] also with the Soviet OMFB, which may not be as big as what we have over here. […] In the meantime, Sebestyén has been to Moscow. Their experience is good. We set this up as a model, it was urged by Siemens because Siemens has made more progress in Hungary than any other firm in West Germany," 'Fábián' revealed in a telephone conversation about the framework agreement.[495]

In January and February 1973, the Sebestyén-Geist duo also backed out of pushing the vehemently advertised Siemens computers forced onto industrial companies. Apparently, however, Simon was not informed of this. Zsolt Náray, director of the Institute for Computer Technology (SZKI), decided in early 1973 that he would sell the Siemens computer they purchased at the suggestion of the OMFB because it was unfit for their purpose: "I, acting as the SZKI, was given this grant by Mr Sebestyén to buy this machine. (Note: A Siemens 4004/45 computer worth 650,000 US dollars.) This machine should run, and we should establish an agreement with you. Nothing came of it. I am selling this computer because I cannot carry on like this. This is an inevitable step after three years."[496] The Siemens computer mentioned by Náray was a further developed version of the Mitra-15 manufactured by a French company, the Compagnie International pour l'Informatique (CII). When the programme of the Unified Computing System launched, the Hungarian state purchased this licence for the R10 computer manufactured by Videoton. The success of the French company in the Hungarian market could, of course, be put down to the OMFB, which seemed to have been lobbying surprisingly in favour of CII, while Siemens wanted to sell its own computers in Hungary. In 1968 and 1969, for example, the OMFB was willing to give Ganz-MÁVAG a grant to buy a computer only if it purchased the computers of the French company mentioned above. The deal was struck, but the equipment was unfit to perform the tasks it was intended for.[497] During the investigation, state security concluded that what lay behind the support provided by the

495 Ibid. p. 106–107.
496 Ibid. p. 113.
497 ÁBTL 3.1.9 V-160121/2. 43. Supplementary report, 29 August 1973

French company was actually the Siemens lobby. The two companies agreed to take over each other's representations in their own countries, and the next step in the cooperation would be marketing a computer they developed together, so the equipment purchased from the French company was designed to implicitly open up markets for Siemens.[498] In 1972, the Lenin Kohászati Művek steelworks was forced to purchase a Mitra-15 to control metallurgical processes according to the same considerations, but they did not have compatible software, so it could not be used.[499] Overseen by the SZKI, programme development started immediately and Videoton also received its first French computers, which were used to progress development tasks assigned to Hungary within the ESZR. The R10 computer they built and which was successfully used in the countries of the Soviet Bloc illustrates the expertise and resourcefulness of Hungarian engineers.

So the development of the Mitra and Siemens computer ranges began and continued in Hungary, but the scandals erupting in the background had to be smoothed over and dealt with somehow. According to information from state security, it seems that it was only Simon who was still trying to carve out substantial advantages for the West German company in 1973, based on the signed framework agreement, but his partners of old turned their backs on him. At the beginning of the year, the Ministry of Health announced a cardiology programme and instructed a foreign trading company called Medicor to purchase the necessary equipment. 'Fábián' was determined to make Siemens the winner of the bidding process, because it was obvious that, when it came to further development, the company whose computers were already present in the market would be at an advantage. When the offers arrived, however, it transpired that Phillips had made an offer of the same technical content for 20 percent less, and would consequently be awarded the tender. As shown by Endre Simon's telephone conversations tapped by state security, Simon also called Róbert Geist to ask for his help in obtaining an import licence for Siemens, but Geist, refuting the statement made during previously tapped conversations that

498 ÁBTL 3.1.5 O-15829/7. 84–85. Information report, 31 March 1972
499 Ibid. p. 84

he was working in close cooperation with Simon, only said that Phillips really was cheaper.[500] Endre Simon was running out of wiggle room.

At the first-instance trial on 10 and 12 December 1973, Endre Simon was found guilty of espionage, crimes violating foreign currency management and was sentenced to seven years' imprisonment and full confiscation of property.[501] On 13 March 1974, the Supreme Court re-classified the acts as breaches of professional secrecy and reduced the sentence to six years in prison and the confiscation of 80,000 forints worth of property.[502] In justifying the verdict, there was no mention, of course, of the irregularities and misuses by the OMFB, and none of the information recorded in the investigation documents made it to court. Simon was brought to court on account of data he revealed during conversations with officials of the Austrian and the British trade office. Based on these conversations, the representatives of the imperialist countries may have thought "there is no agreement on every issue within the socialist camp."[503] The crimes unveiled could not be blamed on Simon because that would inevitably have highlighted the culpability of his superiors. It is therefore hardly surprising that counterintelligence refused to accept that its investigation was to no avail, so they started a new investigation against one of Simon's contacts in the hope of finding evidence of financial mismanagement that could no longer be covered up. This is how the investigation against the deputy general manager of Metalimpex was started, which partially directed the attention of state security in a new direction. This is how the illegal methods of accumulating hard currency by MNVK-2 were exposed, for which those responsible could not be held to account on this occasion either, because some of the profit from accumulating foreign currency was intended to support the international communist movement, but at least this made it possible to arrange a criminal trial for yet another scapegoat.[504]

500 ÁBTL 3.1.5 O-15829/8. 114. Evaluation report, 22 February 1973
501 ÁBTL 3.1.5 O-15829/9. 22–27. Supreme Court judgement, 14 December 1973
502 ÁBTL 3.1.5 O-15829/9. 28–33. Supreme Court judgement, 20 June 1974
503 Ibid. 29.
504 For more on this topic, see: Borvendég 2018

FINAL THOUGHTS – TRAPPED IN THE NETWORKS

The secret service games explained in this book shed light on the hitherto unknown side of Hungary's role in the Cold War. These episodes, each a crime story in itself, are linked together, forming a chain, and while offering the reader the experience of discovery and a sense of wonder, they still present the annoying uncertainty of an unsolved mystery. The stories and networks of nexuses strongly suggest that we need to reconsider Hungary's post-1945 history and role in world politics from a number of perspectives. The correlations presented in the book prompt us to draw a plethora of possible conclusions, the thorough investigation and interpretation of which will, I think, be unavoidable in the future. In the meantime, we need to raise new questions and seek new answers, possibly using new methods. The message of the book is not meaningful without the networks' role in shaping and affecting history.

Interpreting past events by examining networks is a novel approach for historians, but one that is gaining currency due to its well-founded scientific basis, which fortunately makes anyone who emphasises the importance of using this approach less of a conspiracy theorist.[505] Research by Albert-László Barabási on networks modelled the significance of scale-independent networks (graphs) not just theoretically, but also in the sense that these preferential systems of connections are also typical of social networks, which means this method is highly suitable for describing human relationships. Barabási has supported and proved this using historical examples.[506] Scottish historian Niall

505 Network research also has traditions in Hungarian historical literature, a methodology analysis has even been published on the topic: Kovács 2012

506 Barabási 2013

Ferguson has also looked at the major turning points of human history from the point of view of network theory.[507] He concluded that we can observe the changes in the balance of power between hierarchies and networks, and that the most revolutionary changes occurred in the history of mankind when corroded hierarchical institutions were shaken and destroyed by networks. Ferguson argues that our era is the Second Networked Age when networks dominate the world, adding that they have never been as important as they are today. In the preface to his book, Ferguson says: "Even today, the majority of academic historians tend to study the kinds of institution that create and preserve archives, as if those that do not leave an orderly paper trail simply do not count. Again, my research and my experience have taught me to beware the tyranny of the archives. Often the biggest changes in history are the achievements of barely documented, informally organised groups of people."[508] The lessons from this book support Ferguson's conclusions also with regard to Hungary: the barely documented and therefore barely researchable informal networks and financial-economic interest groups affected the economic processes in Socialist Hungary, thus directly influencing how politics was shaped. It is not enough to explore the documents left behind by party committees and state institutions to understand exactly what happened in Hungary after 1945. It is at least as important to trace back the nexuses within and the motivation behind the network this book is about. From the point of view of network research, secret service documents and also state security documents, which are all too often disparaged and the value of which as a source is frequently questioned, are of immense significance, because secret service men and the detectives of state security, on top of operating as networks themselves, were trying to unveil exactly the system of nexuses that stayed hidden, so the logic of their working methods resembles that of the historian looking into network research.[509]

507 Ferguson 2019

508 Ibid. p. 21–22.

509 The monograph Secret Society by Nóra Szekér is an outstanding work of network research in Hungarian historiography. It describes the mysterious network that infiltrated interwar political public life in Hungary by presenting the operation of the Hungarian Fraternal Community. Szekér 2017a.

Now, 30 years after the change in political system, we are experiencing increasingly clearly that the patterns of connections meshing and affecting current domestic political and economic relations are rooted in the socialist era or even earlier. This leads experts from different areas of science to question how real the transition was, while the man in the street does so based on his own everyday experience as he is probably faced with the consequences brought on by the presence of such 'surviving networks'.[510] In my book published in 2017, *The Age of the 'Impex*es*'*, I already pointed out that the socio-economic background and political history of Kádár-era Hungary cannot be interpreted without understanding the activities of the interest group I call the 'foreign trade lobby'. This informal network was embedded in the state hierarchy and we saw that several of its members played a decisive role in the economic governance of the country and infiltrated the secret service apparatus so deeply that their machinations are nearly impossible to untangle. The Cold War created a previously unknown system of political relationships in which the divided nature of the bipolar world brought about an extreme situation for the global economic players. The approach of the majority of historians looking into the era is fundamentally defined by the animosity and competition between the separated regions of the world, probably attaching much more significance to the ideological and political division than it actually played. This book suggests that, in spite of the genuine division actually embodied by the Iron Curtain, global networks continued to operate undisturbed even after World War Two. The strict, hierarchical order of the dictatorship even offered protection for their expansion, and the proliferation and disruptive impact of the networks protected by the regime eventually contributed to the 'sloppiness' of Kádár's dictatorship. The latter sentence requires some explanation as the picture of the networks built to protect the hierarchy appears to conceal a controversy.

Ferguson argues that hierarchy and networks have always existed side by side during history, but their functioning and philosophy sets them fundamentally apart. For most of human history, the rules of co-existence

510 Ágnes Hankiss published a book under this title in 2013, looking primarily into the survival of the Communist state security networks. Hankiss 2013.

were laid down by a hierarchy, which also means that societies regarded the prevalence of order as most desirable. The increasing influence of networks, however, always brings about disruption to order, anarchy, and the weakening of the power of the hierarchy. Looking at world history in the 20th century, we can conclude that the first half of the century inevitably had to be dominated by hierarchies, because military organisations working to a strict order prevailed during the wars, and state administration also has much more of a role to play than in peace time. Dictatorships that played a pivotal role in a given period also show the strictest hierarchical structure. According to Ferguson, networks took the initiative in the world sometime around the turn of the 1960s and 1970s. This was illustrated most brilliantly perhaps by the wave of rebellions triggered by the student movements in 1968. This tendency also manifested itself in Hungary at this time, which is evidence that the Iron Curtain not only failed to shield the country from the consequences of the oil price shock, but that networks also started to rise in parallel to the same tendency happening in the world. The power of the financial-economic interest group defined as the foreign trade lobby began to grow around the turn of the 1960s and 1970s: the issue of the decree stymieing the new economic mechanism and simultaneously allowing the establishment of joint ventures proves that this group was able to exert its will by this time. All of this highlights once again that we should not attribute too much significance to the dichotomy of the world, and this also demonstrates that the networks appearing in Hungary can be linked to the webs of relationships in western countries. But how is this possible if one of the cornerstones of the theory is that hierarchy is clearly dominant in dictatorships? Why did the hierarchy of the communist dictatorship leave room for networks? The simplest explanation is that the system was being corrupted even then, so the strengthening of the networks was one of the earliest signs of the processes leading up to the change in political regime. The answer, however, is not that simple, because this book is precisely about how these networks were supported directly by both superpowers immediately after the war. In other words, the system of economic relationships in question was built by hierarchies, and that this occurred parallel to the communist dictatorship being built in the satellite states. If it was a conscious move on

the hierarchies' part to support the building of these networks, does this also mean that we should suspect a willing helping hand lent to spreading these networks behind Kádár's so-called 'soft dictatorship' or the policy of opening up to the West?[511] In my opinion this is one of the key questions when it comes to making sense of the Kádár regime.

The 20th century shows an unmatched mesh of hierarchies and networks existing side by side. The ideology of Bolshevism was spreading in the world like a virus, so it was a network right until it built its own dictatorship in Soviet Russia. (The same applies, of course, to the ideology of fascism and national socialism, too.) In Stalin's Soviet Union, building bottom-up and horizontally spreading networks of relationships was out of the question; networks could only be created by the informants and collaborators of state security obeying instructions issued centrally by the Party: the network therefore transformed itself into the strictest hierarchy possible. The Soviet-type dictatorship did not lock itself up behind its own walls. Instead, it was readying itself to go and conquer the world (again, not unique in the history of the world): It never lost sight of its intention to spread the global revolution. Between the two wars, Stalin put immense effort into winning over leftist intelligentsia, but in addition to influencing the like-minded it was also important to sensitise western societies. He was able to chalk up dramatic results in both areas, but this was only possible with an extensive network working behind the scenes to reach his goal. The professional work of the leftist movement, communist cover organisations and the Soviet secret services is not unknown to us, so it is safe to say that, whilst building a dictatorship in his country, Stalin made sure of the survival of the network that had helped the Bolshevik party take power, and that was intended to crumble western regimes from the inside, and even promoted its further development in western countries. This kind of internal disruptive work was inconceivable in reverse: the Soviet hierarchy did not provide any scope for systems of horizontal relationships to extend freely into Russia.

511 Building networks in the Kádár era is aptly illustrated by the cultural policy pursued by György Aczél, the unique methods of which clearly show the workings of goulash communism. Szekér 2017b.

We have learned that the trade relations that laid the foundation for Hungary's liaising role in the future were built in no time after World War Two. The question then arises how great a role the pre-existing networks played in this. The activities of members of Comintern known as the 'Hungarian mafia' and of the agents operating in Switzerland suggest that these connections probably did exert an influence, and I would even say that, having been pulled into the Soviet sphere of interest, Hungary was tasked with ensuring and managing the operation of communist networks in western countries. (This would seem a logical move from the Soviets, not only on account of Hungary's geographical location, but also due to the large number of communist functionaries who scattered after the fall of the Hungarian Soviet Republic and were well acquainted with the various underground organisations around the world.) The chink in the Iron Curtain may have served not only to keep the global economy alive, but also to create an opportunity for other networks to extend. All this is merely a hypothesis, of course, but it may be proven or refuted by further research. Based on the correlations unveiled so far, however, this possibility can certainly not be ruled out.

One conclusion of the network research is that international trade tends to have a pacifying effect.[512] A predictable and safe political and diplomatic background is desirable for trade relations, since wartime conditions make economic cooperation difficult or even impossible. This, however, also works in reverse. An effectively functioning system of trade relationships can guarantee the welfare of a society, so tipping the status quo and engaging in hostility is not in the interests of economic partners. This theory complements the generally accepted proposition that the proliferation of nuclear weapons prevented the outbreak of a third world war: the surprisingly prolific system of trade networks also seems to have helped preserve the power balance after 1945. Based on this idea, it is safe to say that Hungary's role during the Cold War was not relegated to serving merely as a way of ensuring the operation of the global economy, instead, the country also contributed to the implementation

512 Dorussen – Ward, 2010.

of the ideology of peaceful coexistence. This pacification, however, not only prevented open armed conflicts from turning into global crises, it also overrode ideological dividing lines. In the countries of the Eastern Bloc, the communist takeover was legitimised by the occupying Soviet forces through the fight against fascism and Nazism. Meanwhile, party members established economic ties with high-ranking representatives of the Nazi power without batting an eyelid. With the onset of the Cold War, the threat posed by fascism and Nazism dwindled considerably, although the fight against fascism can be regarded as a valid political motto in leftist circles to this day, with the 'exploitative' system of western imperialism becoming the arch enemy. No matter what ideological rhetoric was fed to the masses, it was little more than window dressing. This book demonstrates in great detail the continuity spanning periods and systems, and the collaboration between Nazism and communism, behind which the helping hand of the West can be clearly felt all along.[513]

In light of the above, we can conclude that exploring these economic and financial networks put Hungary's post-war role in a new light. One may rightly ask to what extent the construction of these systems of nexuses was intentionally assigned to the country, to what extent the point was only to serve Soviet interests, whether all this was taking place under direct instruction from the Soviets, and if the Hungarian members of the network had any room for manoeuvre. We need to understand the underlying interests more thoroughly to determine how important Hungary's role was in the global political arena. Considering the extent of the intermediary trade revealed so far, this role was anything but minor. However, it is hard to tell who actually controlled and benefited from the mechanism. We have found it challenging to unveil the Hungarian nodes of the network (or networks) in question, all we can say is there was a financial-economic interest group in Kádár's Hungary that was capable of influencing economic policy decision-makers, and of imposing its will even on the government. I have chosen to call this interest group the 'foreign trade lobby'. The joint venture scheme and the network of offshore firms behind

513 The US used the scientists of Nazi Germany without hesitation, just as it had no qualms in supporting the business activities of former Nazis. See: Hunt 1991.; Crim 2018.

it clearly signalled their ascendence, but can we really regard them as nothing more than a lobby group? We have seen that opposing players appeared within the party and state hierarchy. The failure of the new economic mechanism cannot be explained simply by the strengthening of orthodox communists. Furthermore, in light of what is explained in this book, one is faced with the controversial situation where hampering the rationalisation of the economy, autonomous industry and the first tentative steps to place the economy on a market-based footing was in the interests of those already operating in line with the rules of a profit-oriented capitalist business world. It was their desire to eliminate competitors in the arena. The methods used often overstepped the boundaries of legality: their activity was a hotbed of corruption, and, as we saw, the suspicion of political murder can even be raised against these players, so this book is further nuanced by the unanswered questions surrounding György Péter's death at the very least. The term 'foreign trade lobby' does not, therefore, refer to the conventional definition of a group fighting for certain interests, generally using legal instruments. Instead, we know of several such groups in the economy of the Kádár regime. It is enough to mention the agricultural lobby,[514] the lobby of industrial companies and the water lobby, which bear a striking resemblance to organised crime networks. The fact that they had connections in state institutions, as well as within the secret service, gives the structure of the group a rather mafia-esque look. As a mafia organisation, the 'foreign trade lobby' enjoyed a privileged position in the one-party state precisely due to its dictatorial organisation, which prevented rivals arriving uninvited from the outside. This is what I mean when I say a network protected by the hierarchy.

Foreign trade is based on foreign relationships, so this lobby group was only a Hungarian tentacle of an international organisation. However, in contrast to the foreign relationships typical of the era, one has to seek beyond the Iron Curtain to find their partners instead of looking within the countries of the Eastern Bloc and Comecon. An orientation to the West was a logical consequence of the tasks to be carried out, since this was the only way to

514 Cf. Varga 2013.

accumulate hard currency and to access embargoed goods. However, the economic damage caused by re-exporting, to our current knowledge, exceeded the levels that could be explained by a mandatory contribution imposed on the Hungarian satellite. What really happened then? At present, I cannot give a satisfactory answer to this question, and one can only hope that the tiny puzzle pieces will sooner or later come together to show a picture showing a greater semblance of reality. We can already state, however, that international financial circles were trying gain a foothold in the eastern markets, and found keen supporters in this endeavour among the members of the 'foreign trade lobby'. It is enough to think of the capitalist circles behind the FDP that were forging plans as early as the 1950s to find ways to cut themselves a slice of Hungarian national assets at a favourable price the moment liberalisation was initiated in the economy, namely when privatisation was given the green light. The efforts by Siemens to gain a share in the market also falls under this category. The most illustrative example of this global network is the series of crimes behind Iranian oil transiting in the 1980s, where Phibro, one of the largest oil companies in the USA, pocketed profits from re-exporting. On the Hungarian side, the business deal can be linked to János Fekete's circles and the 'foreign trade lobby'.[515] To the best of our knowledge, they inflicted the greatest damage on Hungary through this business, but the group as a whole can also be held responsible for the continuous deficit of the foreign trade balance. János Fekete's questionable lending and exchange rate policy[516] contributed to the country's indebtedness too. It would not be an exaggeration to say that the 'foreign trade lobby' was aiding and abetting the pillage of the country, forcing Hungary onto an inescapable economic path. But why? Who were these people serving, and what network did they belong to when they did what they did? Posing and answering this question is unavoidable if one tries to understand not only the past but also the present, because the change in political system did bring about a political caesura. Instead, the survival of the networks was relevant not only in terms of state security. This is exactly why so many people felt they were left

515 Borvendég 2017, p. 111–160.
516 Szabó 2016.

hanging after the change of political system, because the forces driving these changes dismantled the one-party state hierarchy, even though the influence of this hierarchy had been dwindling since the early 1970s. If we follow the train of thought expressed previously that an increasingly sprawling influence of these networks can be observed from the turn of the 1970s, then 1989/1990 could never be a genuine root-and-branch social and economic transformation as the networks were unaffected by the transition. There was nothing to replace them, so their system remained intact. (I believe it was the first Orbán government that first made an attempt to eliminate this network after 1998, probably to no avail.) If we understand the forces in play in Hungary prior to 1989, we will probably come closer to finding an answer to the question of what happened subsequently. Exploring these networks can help us interpret the present and point us in the right direction when it comes to looking for answers to the challenges of the 21st century, because as Kierkegaard put it: "Life can only be understood backwards."

BIBLIOGRAPHY

Archive sources

Historical Archives of Hungarian State Security (ÁBTL)
2.7 Information reports, Ministry of Interior
2.7.1 Daily Operational Information Reports
2.7.3 Assorted reports
2.8 Personnel, labour and financial documents
2.8.2 Files on secret and top-secret employees of state security organisations
3.1 Dossiers handled by units in charge of central operative records
3.1.1 Recruitment dossiers (B dossiers)
3.1.2 Work dossiers (M dossiers)
3.1.5 Operational dossiers (O dossiers)
3.1.9 Investigation dossiers (V Dossiers)
3.2 Dossiers managed by Ministry of Interior Division III/II and its legal predecessors
3.2.1 Recruitment dossiers (Bt dossiers)
3.2.3 Work dossiers (Mt dossiers)
3.2.4 Research dossiers (K dossiers)
3.2.5 Operative dossiers (O-8 dossiers)

Hungarian National Archives (MNL OL)
XIX-A-83-b Documents of the Council of Ministers

Budapest Capital Archives (BFL)
XXXV-10-c Documents of the ground organisations in Budapest of the Hungarian Socialist Workers' Party

Central Intelligence Agency Freedom of Information Act (CIA FOIA)

- Special collection of Emil Hoffmann
- Special collection of Helmut Triska
- Special collection of Gustav Meissner
- Hungarian Economic Activities in Western Europe
- Absorption of Power by the Communists in the Hungarian Foreign Service
- Hungarian Trade Policies
- Economic Intelligence Report
- Economic Intelligence Report – The Role of Re-exports in Hungarian Foreign Trade
- Intelligence Memorandum – Trading and Cooperation with Hungary
- Prospects for US Export to Hungary and Poland

References

Andreides, G. (2019). *Egy megbízható elvtárs. Száll József útja az MKP-tól a P2-ig*. Committee of National Remembrance. Budapest.

Andrew, C., Mitrohin, V. (2000). *A Mitrohin-archívum. A KGB otthon és külföldön.* Talentum Kiadó. Budapest.

Arendt, H. (2000). *Eichmann Jeruzsálemben. Tudósítás a gonosz banalitásáról*. Osiris Kiadó. Budapest.

Barabási, Albert-László (2013). *Behálózva. A hálózatok új tudománya* (*Linked: How Everything Is Connected to Everything Else and What It Means for Business, Science, and Everyday Life*), Helikon Kiadó. Budapest.

Baráth I., Kázsmér J. &– Ujvári Z. (ed.). (2013). *A Videoton története, 1938–1990.* Videoton Holding Zrt. Székesfehérvár.

Bartošek, K. *Vallanak az archívumok.* (2003). *Prága – Párizs (1948–1968)*. Hamvas Béla Kultúrakutató Intézet [Béla Hamvas Institute]. Budapest.

Békés, Cs. (2019). *Enyhülés és emancipáció. Magyarország, a szovjet blokk és a nemzetközi politika 1944–1991*. Osiris Kiadó–Hungarian Academy of Sciences Centre for Social Sciences. Budapest.

Benda, L. (ed.). (1999). *Fekete bárány? Fekete János vall életéről, világnézetéről, világlátásáról Benda Lászlónak.* Print City Kiadó és Nyomda Kft. Budapest.

Berkó, L. (1983). Az iparvállalatok külkereskedelmi joga mint a strukturális alkalmazkodás eszköze. *Ipargazdasági Szemle.* 13. (3.) p. 62–75.

Bodnár, Z. (2002). Az IBM története. https://www.hwsw.hu/hirek/40558/az-ibm-tortenete.html?oldal=3 downloaded on 22 April 2020

Borhi, L. (2015). *Nagyhatalmi érdekek hálójában - Az Egyesült Államok és Magyarország kapcsolata a második világháborútól a rendszerváltásig*. Budapest. Osiris Kiadó.

Borvendég, Zs. (2015). *Újságírásnak álcázva. A Nemzetközi Újságíró Szervezet Magyarországon*. Committee of National Remembrance. Budapest.

Borvendég, Zs. (2016). "Hírügynökségek". A Press rezidentúra és a megnyertek hálózata a Kádár-rendszer sajtóéletében. *Betekintő.* 10. (3)

Borvendég, Zs. (2017). *The Age of the Impexes. Extracting funds from the 'people's economy' under the cover of foreign trade during the Kádár regime, as reflected in state security documents.* Committee of National Remembrance. Budapest.

Borvendég, Zs. (2018). *A Cég megnyertjei – a megnyertek cégei. Titkosszolgálati vállalatalapítások és valutakitermelés a Kádár-rendszer idején.* The Historical Archives of Hungarian State Security – Committee of National Remembrance. Budapest.

Borvendég, Zs. (2019). *A kádári Magyarország titkos élete*. Kárpátia Stúdió. Köröstárkány–Kápolnásnyék.

Botlik, J. (2013). Ödenburg és „Ost-Burgenland". Sopron és „Kelet-Burgenland" a Rába folyásáig; osztrák területi követelések 1945–1946-ban. *Vasi Szemle.* 67. (1) p. 27–42.

Bölöny, J. (1978). *Magyarország kormányai, 1848–1975*. Akadémiai Kiadó. Budapest.

Carter, C. W. (2012). The Evolution of US Policy toward West German–Soviet Trade Relations 1969-89. *International History Review.* 34. (2) p. 221–244.

Crim, B. E. (2018). *Our Germans: Project Paperclip and the National Security State*. Johns Hopkins University Press. Baltimore.

Csapody, T. (2014). *Bortól Szombathelyig. Tanulmányok a bori munkaszolgálatról és a bori munkaszolgálatosok részleges névlistája*. Zrínyi Kiadó. Budapest.

Cseh, G. B. & Tóth E. (2017). A magyar állambiztonsági szervek központi nyilvántartási rendszere és annak számítógépesítése (1962–1990). *A Nemzeti Emlékezet Bizottsága és az Állambiztonsági Szolgálatok Történeti Levéltára közös munkacsoportjának jelentése az 1990 előtti állambiztonsági szervek mágnesszalagokon megőrzött adatállományainak vizsgálatáról.* NEB–ÁBTL [Committee of National Remembrance, Historical Archives of Hungarian State Security]. Budapest.

Gyarmati, Gy. & Palasik M. (Ed.). (2013). *Trójai faló a Belügyminisztériumban. Az ÁVH szervezete és vezérkara 1953–1956*. The Historical Archives of Hungarian State Security –L'Harmattan Kiadó. Budapest.

Cserényi-Zsitnyányi, I. (2015). *A politizált gazdasági rendőrség. A Gazdaságrendészeti Osztály, 1945–1948*. Committee of National

Remembrance. Budapest.

Cseszka, É. (2012). *Gazdasági típusú perek, különös tekintettel az FM-perre (1945–53)*. Gondolat Kiadó. Budapest.

Dorussen, H. & Ward, H. (2010). Trade networks and the Kantian Peace. *Journal of Peace Research*. 47. (1.) p. 29–42.

Fábián, M. (2014). A Vályi Péter eset. *Historia Nostra*. 2. (1.) p. 119–127.

Ferguson, N. (2019). *A tér és a torony. Hálózatok, hierarchiák és harc a globális hatalomért*. Scolar Kiadó. Budapest.

Fiziker, R. (2013). Isten hozta Őrnagy Úr (illetve százados elvtárs)! A történész és az állambiztonság. *Levéltári Szemle*. 63. (2) p. 35–45.

Førland, T. E. (2009). *Cold Economic Warfare: CoCom and the Forging of Strategic Export Controls 1948-1954. History of International Relations, Diplomacy and Intelligence*. Republic of Letters Publishing. Dordrecht.

Gábor P. (2013). *Jóvátétel és külkereskedelmi orientációváltás Magyarországon, 1944–1949/51. Interdisciplinary Doctoral School of the Faculty of Humanities at the University of Pécs, doctoral dissertation, Pécs https://idi.btk.pte.hu/dokumentumok/disszertaciok/gaborpeterphd.pdf, downloaded on 3 August 2019*

Germuska, P. (2010). Vörös arzenál. Magyarország részvétele a nemzetközi hadiipari együttműködésben a KGST keretei között. Argumentum–1956 Institute. Budapest.

Germuska, P. (2011). "…Nem tudunk egyensúlyba kerülni". Külkereskedelmi árkiegyenlítés – költségvetésen kívül és belül. In: Baráth, M., Bánkuti, G. & Rainer M., J. (ed.). *Megértő történelem. Tanulmányok a hatvanéves Gyarmati György tiszteletére*. L'Harmattan Kiadó. Budapest. p. 383–394.

Germuska, P. & Honvári, J. A közúti járműgyártás története Győrött 1945-től 1990-ig. In: Honvári, J. (ed.). *Győr fejlődésének mozgatórugói*. Universitas–Győr Nonprofit Kft. Győr. p. 7–99.

Germuska, P. Kémek a „Bagolyvárban"? Avagy a magyar hírszerzés és az Európai Gazdasági Közösség. In: Andreides, G., M. Madarász, A. & Soós, V. A. (ed.). *Diplomácia – Hírszerzés – Állambiztonság*. Budapest. Committee of National Remembrance. Budapest. p. 233–251.

Germuska, P. (2019). Balancing between the COMECON and the EEC:

Hungarian elite debates on European integration during the long 1970s. *Cold War History.* 19. (3). p. 401–420.

Germuska, P. & Horváth M. (2020). *A magyar honvédelmi igazgatás története. 1945–1990*. MNL. Budapest. https://mnl.gov.hu/download/file/fid/591311, downloaded on 7 July 2020

Greaves, L. M. (1970). *'Concerned not only with relief': UNRRA's work rehabilitating the Displaced Persons in the American zone of occupation in Germany, 1945-1947*. A thesis presented to the University of Waterloo in fulfillment of the thesis requirement for the degree of Doctor of Philosophy in History, Waterloo, Ontario, Canada, 2013.

Guérin, A. (1970). *A szürke tábornok*. Kossuth Könyvkiadó. Budapest.

György, S. B. (2015). Vályi Péter halála: tragikus baleset vagy politikai gyilkosság? *Napi Történelmi Forrás.* 19 October 2015 https://napitortenelmiforras.blog.hu/2015/10/19/valyi_peter_halala_tragikus_baleset_vagy_politikai_gyilkossag, downloaded on 3 November 2019

Haár, O. (1980). Kondenzátorokat gyárt a Sicontact. *Világgazdaság.* 12. 21 March 1980, p. 3.

Hankiss, Á. (2013). *Továbbélő hálózatok – a rendszerváltás tükrében*. Group of the European People's Party–Hamvas Béla Kultúrakutató Intézet [Béla Hamvas Institute]. Budapest.

Hoffmann, E. (1955). *West-Ost-Handel im Zwielicht?* Verlag Handelswerbung. Nürnberg.

Hoffmann, E. (1961). *COMECON, der gemeinsame Markt in Osteuropa*. C. W. Leske Verlag. Opladen.

Horn, Gy. (1991). *Cölöpök*. Zenit Könyvek. Budapest.

Horthy, M. (1990). *Emlékirataim*. Európa Kiadó. Budapest.

Horváth, I. & Németh, I. (1999). *… És a falak leomlanak. Magyarország és a német egység (1945–1990)*. Magvető Kiadó. Budapest.

Hunt, L. (1991). *Secret Agenda: The United States Government, Nazi Scientists, and Project Paperclip, 1945 to 1990*. St. Martin's Press. New York.

Jávor, M. (1965). Az érdekeltek hozzászólnak – Vita a külkereskedelmi propagandanyomtatványok problémáiról. *Külkereskedelem*. 9. (7) p. 218–219.

Kalmár, M. (2014). *Történelmi galaxisok vonzásában. Magyarország és a szovjetrendszer 1945–1990*. Osiris Kiadó. Budapest.

Kovács, B. (2012). A hálózatkutatás alkalmazásáról a történettudományban. *Világtörténet*, 34. (3–4) p. 187–204.

Kenedi, J. (2006). Múltfeldolgozás és történetírás az „ügynökkérdés" kapcsán. Kerekasztal beszélgetés a Fogalomváltozatok – társadalmi egyenlőtlenség, ügynökkérdés, nemzeti és politikai közösség Közép-Európában című konferencián, 28 September 2006. *Régió,* 17. (4) p. 5–27.

Kenedi, J. (2015). Bevezető a Szakértői Bizottság jelentéséhez. In: Uő: *Hálózati munkára nem alkalmas. K. belügyi iratfelmérő újabb jelentései*. Budapest. Magvető Kiadó. p. 98–115.

Keresztes, L. (2004). A nyilas hatalomátvétel előzményei. *História,* 26. (9) p. 14–16.

Koch, S. (2014). *Kettős szerepben. Az értelmiség elcsábítása*. Public Foundation for Research on Central and Eastern European History and Society. Budapest.

Kotek, J. (2005). *Az ifjú gárda. A világ ifjúsága a KGB és a CIA között, 1917–1989.* Budapest. Nagyvilág Kiadó.

Kovács, G. (2014). *Alkonyat Budapest felett. Az embermentés és ellenállás története 1944–45-ben.* Libri Kiadó. Budapest.

Kövér, Gy. Fejezetek a Magyar Külkereskedelmi Bank 50 éves történetéből. In Grenitzer, R. & Rubovszky, É. (ed.): *MKB Krónika*. Magyar Külkereskedelmi Bank Rt. Budapest.

Krahulcsán, Zs. (2019). A pártelit „mentelmi joga" a Kádár-korszakban. A pártfunkcionáriusok elleni állambiztonsági nyomozások szabályozása. In: Horváth, Zs., Kiss, R. & Simon, I. (ed.): *Az állampárt biztonsága. Tanulmányok a belügy és a kommunista párt kapcsolatrendszeréről a Kádár-korszakban.* Committee of National Remembrance. Budapest. p. 205–263.

Lázár, Gy. (2005). Magyarország és Nyugat-Németország kapcsolatai 1945 és 1958 között. *Archívnet*, 5. (2)

http://www.archivnet.hu/diplomacia/magyarorszag_es_nyugatnemetorszag_kapcsolatai_1945_es_1958_kozott.html, downloaded on 4 August 2019

Libbey, J. K. (2010). COCOM, Comecon, and the Economic Cold War. *Russian*

History, 37. (2) p. 133–153.

Macrakis, K. (2008). *Seduced by Secrets. Inside the Stasi's Spy-Tech World.* Cambridge University Press. Cambridge.

Magyar, B. (2008). A magyar katonai hírszerzés tevékenységének fő irányai és jellemzői a Varsói Szerződés időszakában. *Hadtudományi Szemle*, 1. (2) p. 14–21.

Máthé, Á. (2014). *A zuglói nyilasok pere (1967). Értelmezési lehetőségek.* Századvég Kiadó. Budapest.

Mitrovits, M. (2020). A Molotov–Ribbentrop-paktum háttere – Legendák és tények. *Közép-Európai Horizontok.* 2 April 2020 http://horizontok.hu/2020/04/02/a-molotov-ribbentrop-paktum-hattere-legendak-estenyek/, downloaded on 6 April 2020

Mong, A. (2012). *Kádár hitele. A magyar államadósság története 1956–1990.* Libri Kiadó. Budapest.

Mushaben, J. M. (2016). The Best of Times, the Worst of Times. Angela Merkel, the Grand Coalition, and "Majority Rule" in Germany. *German Politics and Society*, 34. (1) p. 1–25.

Müller, R. (2017). *Az erőszak neve: Péter Gábor. Az ÁVH vezetőjének élete*. Jaffa Kiadó. Budapest.

Nyerges, J. (1962). *A Kelet–Nyugat kereskedelem időszerű kérdései*. Közgazdasági és Jogi Könyvkiadó. Budapest.

Nyerges, J. (1986). *Zöld posztós csatatér. A nemzetközi tárgyalások anatómiája*. Gondolat. Budapest.

Oblath, Gy. (1985). Külkereskedelmünk negyven éve. *Külgazdaság*, 29. (4) p. 3–23.

Okváth, I. (2008). Adalékok a magyar katonai felderítés történetéhez, 1956–1989. *Felderítő Szemle,* 7. Emlékszám, November. p. 60–93.

Okváth, I. (2018). A magyar katonai hírszerzés és kémelhárítás története a második világháború végétől a rendszerváltásig. *Felderítő Szemle*, 17. (2) p. 38–50.

Olsen, J. (2011). Leadership in Grand Coalitions. Comparing Angela Merkel and Kurt Georg Kiesinger. *German Politics*, 20. (3) p. 342–359.

Oplatka, A. (2014). *Németh Miklós. „Mert ez az ország érdeke"*. Helikon Kiadó.

Budapest.

Pál, Z. (2013). „Külföldről irányított szabotázsakció". Koncepciós per a MAORT ellen 1948-ban. *Kommentár*, 6. (2) p. 54–67.

Pálos, I. (1958). A külkereskedelem 1957-ben – a számok tükrében. *Külkereskedelem*, 2. (2) p. 3–4.

Pehe, J. (1990). *International front organizations survive in Prague*. Report on Eastern Europe. 20 June. http://www.pehe.cz/clanky/clanky_view?lng=en&year=199,1 (downloaded on 12 August 2014)

Petritsch, W. (2014). *Bruno Kreisky. Egy osztrák államférfi életútja, 1911–1990*. Napvilág Kiadó. Budapest.

Pikler, F. (1948). A jóvátétel szerepe a magyar gazdasági életben. *Magyar–Szovjet Közgazdasági Szemle*, 2. (2) p. 1–4.

Pittman, A. (1992). *From Ostpolitik to Reunification West German–Soviet Political Relations since 1974*. Cambridge University Press. Cambridge.

Pogány, Á. (2006). Co-operation through the Iron Curtain: Economic Relations between Austria and Hungary after the Second World War. In: Enderle-Burcel, Gertude et al.(eds.): *Gaps in the Iron Curtain. Economic Relations between Neutral and Socialist Countries in Cold War Europe*. Jagiellonian University Press. Krakow. p. 142–162.

Práczki, I. (2014). *Kémjátszmák. Egy magyar hírszerző emlékiratai*. Kárpátia Stúdió. Budapest.

Rathkolb, O. (2014). *The Paradoxical Republic. Austria 1945–2005*. Berghahn Books. Oxford.

Rubin, B., Schwanitz, W. G. (2014).: *Nácik, iszlamisták és a modern Közel-Kelet megteremtése*. Patmos Records. Budapest.

Ruff, M. (1998). A hivatalos Magyarország nyugatnémet politikai kapcsolatairól (1956–1958.) *Századok,* 132. (5) p. 1113–1132.

Ruff, M. (2007). A két német állam. In: Békés, Cs. (ed.): *Evolúció és revolúció. Magyarország és a nemzetközi politika 1956-ban*. 1956 Institute–Gondolat Kiadó. Budapest. p. 300–318.

Ruffner, K. C. (ed.) *Forging an Intelligence Partnership: CIA and the Origins of the BND, 1949–1956*. Europe Division National Clandestine Service.

Schmidt, M. (2005). *A titkosszolgálatok kulisszái mögött. Hitek, ideológiák és*

hírszerzők a XX. században. Budapest. The Institute of the Twentieth Century.

Sebők, O. (ed.). (2017). *A Siemens története Magyarországon, 1887–2017*. Siemens Zrt., Budapest.

Selvage, D. (2014). SA-CIA-HV A: Dr. Emil Hoffmann and the "Jungle of the Secret Services." In: Spiekerman, U. (ed.): *The Stasi at Home and Abroad: Domestic Order and Foreign Intelligence.* Bulletin of the German Historical Institute. Supplement 9., p. 115-138.

Seres, A. (2006). A szovjet piac „meghódítása" és a magyar tőke Trianon után. Iratok a szovjet–magyar vegyes kereskedelmi társaság történetéhez (1923). *Századok,* 140. (1) p. 79–125.

Seres, A. (2008). Magyar külkereskedelmi politika és a szovjet piac az 1920-as években. *Történelmi Szemle,* 50. (3) p. 407–433.

Stent, A. (1981). *From Embargo to Ostpolitik: The Political Economy of West German–Soviet Relations, 1955–1980*. Cambridge University Press. New York.

Strasserné, C. D. & Bán, D. A. (1999). *Az Andrássy úttól a Park Avenue-ig. Fejezetek Chorin Ferenc életéből (1879–1964)*. Osiris Kiadó. Budapest.

Szabó, G. (2016). A magyar államadósság keletkezése (1973–1989). Pénzriport. Budapest.

Szekér, N. (2017). *Titkos társaság. A Magyar Testvéri Közösség története.* Jaffa Kiadó. Budapest.

Szekér, N. (2017). A diktatúra „kis körei". Az aczéli kultúrpolitika néhány sajátossága. In: Nagymihály, Z. & Szekér, N. (ed.): *Forrásvidék. A nemzeti demokratikus gondolkodás a magyar folyóiratok tükrében (1956–1987).* Antológia Kiadó. Lakitelek. p. 9–32.

Szilágyi, G. (2015). Az MDP és az MSZMP a „guruló dollárok" rendszerében. In: Kiss, R. & Soós, V. A. (ed.). *Keletről Nyugatra. A kommunista mozgalom titkos pénzei*. Committee of National Remembrance. Budapest. p. 7–70.

Szörényi, A. (2012). *A Standard-per előzményei és előkészítése, 1948–1950*. Doctoral dissertation. Pázmány Péter Catholic University Faculty of Humanities and Social Sciences Doctoral School of History. Piliscsaba.

Szörényi, A. (2013). Adalékok a Vogeler-ügy diplomáciatörténetéhez, 1949–

1951. *Külügyi Szemle.* 12. (1) p. 141–171.

Ter Borg, F. A. & Lafeber, C. N. D. G. (1987). Joint Ventures in Hungary. *Review of Socialist Law.* 13. (4) p. 317–335.

Tihanyi, P. (2003). A sakk mentette meg az életem. Interjú a Pulitzer-emlékdíjjal nemrég kitüntetett sakkújságíróval, Lindner Lászlóval. *Hetek*. 5 December. http://www.hetek.hu/interju/200312/a_sakk_mentette_meg_az_eletem, downloaded on 2 October 2019

Tímár, M. (1989). *Szürke pénzügyek*. Magvető Kiadó. Budapest.

Tóth, I. (2006). *A nyugat-magyarországi kérdés 1922–1939. Diplomácia és helyi politika a két világháború között*. Archives of Sopron, Győr-Moson-Sopron County. Sopron.

Törzsök, É. (2008). *Külkereskedelmi technikai ismeretek 1. Külkereskedelmi ügyletek – külkereskedelmi szerződések.* National Institute for Vocational and Adult Education. Budapest.

Vajda, I. (1962). A KGST tőkés szemmel. *Közgazdasági Szemle*. 9. (8) p. 1014–1016.

Vajna, G. (1987). *Magyar–osztrák vegyesvállalatok működésének értékelése*. Budapest. Doctoral dissertation.

Varga, Zs. (2013). *Az agrárlobbi tündöklése és bukása az államszocializmus időszakában*. Gondolat Kiadói Kör. Budapest.

Zachar, P. K. (2017). Úton a rendszerváltoztatás felé: A gazdasági kamarák narratívái az államszocializmus utolsó éveiben. *Közép-Európai Közlemények.* 10. (1) p. 178–190.

APPENDIX

Abbreviations

ÁBTL	Historical Archives of Hungarian State Security
AEG	Allgemeine Elektrizitäts-Gesellschaft
AG	Aktiengesellschaft, company limited by shares
ÁVH	State Protection Authority
BFL	Budapest Capital Archives
BHE	Association of Deported Germans and Germans Deprived of their Rights
BM	Ministry of Interior
BM ÁVH	State Protection Authority of the Ministry of Interior
BND	Federal News Agency
CDU	Christian Democratic Union of Germany
COCOM	Coordinating Committee for Multilateral Export Controls
CSU	Christian Social Union of Bavaria
CIA	Central Intelligence Agency
CII	Compagnie International pour l'Informatique
DHCS	Southern Group of Forces of the Soviet Army
DM	Deutschmark
EGK	European Economic Community, ECC
ENSZ	United Nations, UN
ESZR	Unified Computing System
FDP	Free Democratic Party, Germany
FOIA	Freedom of Information Act
GATT	General Agreement on Tariffs and Trade
Gestapo	German Secret State Police

GmbH.	private limited company
GRU	Soviets' Second Department (for Intelligence)
HM	Ministry of Defence
IBM	International Business Machines
KB	Central Committee
KEB	Central Control Committee
KKM	Ministry of Foreign Trade
KGB	Committee for State Security
KGM	Ministry of Metallurgy and Machine Industry
KGST	Council for Mutual Economic Assistance, Comecon
KSH	Central Statistical Office
KÜM	Ministry of Foreign Affairs
LKM	Lenin Kohászati Művek steelworks
Malév	Magyar Légiközlekedési Vállalat, Hungarian national airline
MAN	Maschinenfabrik Augsburg-Nürnberg
MAORT	Magyar–Amerikai Olajipari Részvénytársaság, Hungarian-US joint-stock oil company
Maszovol	Magyar–Szovjet Nyersolaj Részvénytársaság, Hungarian-Soviet joint stock crude oil company
MDF	Hungarian Democratic Forum
MDP	Hungarian Workers' Party
MGB	Soviet Ministry for State Security
MI6	UK secret intelligence service
MKB	Hungarian Foreign Trade Bank
MKP	Hungarian Communist Party
MNB	Magyar Nemzeti Bank (National Bank of Hungary)
MNVK-2	Military Intelligence Division 2 of the General Staff of the Hungarian People's Army
MOGÜRT	Magyar Országos Gépkocsi Üzem Rt., Hungarian National Vehicles Shareholding Company
MSZMP	Hungarian Socialist Workers' Party
MÚOSZ	National Federation of Hungarian Journalists
NATO	North Atlantic Treaty Organisation

GDR	German Democratic Republic
NEB	Committee of National Remembrance
NKVD	People's Commissariat for Internal Affairs, Soviet Union
NOIJ	Daily Operational Information Report
NÚSZ	International Organisation of Journalists
OMFB	National Committee for Technical Development
OTP	Országos Takarékpénztár, National Savings Bank
RSHA	Reichssicherheitshauptamt, Reich Main Security Office
Rt.	joint-stock company
SD	Sicherheitsdienst, Security Service
SiPo	Sicherheitspolizei, Security Police
SPD	Social Democratic Party of Germany
SPÖ	Social Democratic Party of Austria
SS	Schutzstaffel
SIS	Secret Intelligence Service
Stasi	Ministerium für Staatssicherheit, Ministry for State Security
SZDP	Social Democratic Party, Hungary
SZDSZ	Alliance of Free Democrats, Hungary
SZER	Radio Free Europe, RFE
SZKI	Institute for Computer Technology, Hungary
TASS	Informatsionnoye agentstvo Rossii, Russian News Agency
tük.	titkos ügyiratkezelés, management of classified documents
UB	Urząd Bezpieczeństwa, Polish state security agency
UNRRA	United Nations Relief and Rehabilitation Administration
US	United States
USA	United States of America
USD	US dollars

List of Photos

Photo 1: Emil Hoffmann ("Fabulous")
Source of photo: ÁBTL 3.1.5. O-12344/5. 423.

Photo 2: Emil Hoffmann's car in Budapest, corner of Honvéd Street and Szalai Street on 2 April 1959.
Source of photo: ÁBTL 3.1.5. O-12344/1a. 60.

Photo 3: Emil Hoffmann's car in Budapest, corner of Honvéd Street and Szalai Street on 2 April 1959.
Source of photo: ÁBTL 3.1.5. O-12344/1a. 60. 91.

Photo 4: Emil Hoffmann's car in front of Vörösmarty Café on 26 May 1960.
Source of photo: ÁBTL 3.1.5. O-12344/1a. 64.

Photo 5: Emil Hoffmann's Opel Rekord car in Budapest.
Source of photo: ÁBTL 3.1.5. O-12344/1a. 54.

Photo 6: Herbert Schellpeper, secretary of the Foreign Trade Department of the West German Federal Ministry of Economics (Bundesministerium für Wirtschaft) in charge of Hungarian matters.
Source of photo: ÁBTL 3.2.4. K-472. 66/5.

Photo 7: Herbert Schellpeper in a photo collected (taken?)
by the Hungarian intelligence.
Source of photo: ÁBTL3.2.4. K-472. 66/3.

Photo 8: Würzinger Willibald, resident officer of the Nazi intelligence services in the Balkans during the Second World War.
Source of photo: ÁBTL 3.1.5. O-12344/5. 380.

Photo 9: Karl Bickenbach
Source of photo: ÁBTL 3.1.5. O-12344/5. 72.

Photo 10: Gerhard Grützmacher
Source of photo: ÁBTL 3.1.5. O-12344/5. 66.

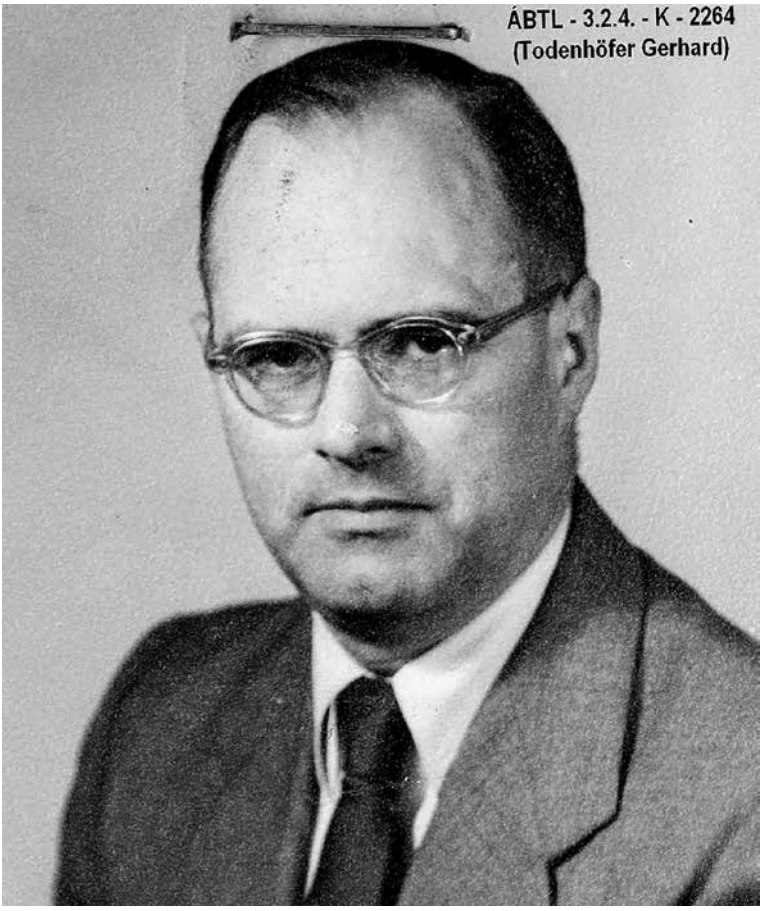

Photo 11: Gerhard Todenhöfer
Source of photo: ÁBTL 3.2.4. K-2264. 31.

Photo 12: Harald Kölln
Source of photo: ÁBTL 3.1.5. O-12344/5. 58.

Photo 13: Emil Hoffmann and Ervin Rojkó in Dunakert Restaurant
on 19 September1960.
Source of photo: ÁBTL 3.1.5. O-12344/1a. 48.

Photo 14: Ervin Rojkó
Source of photo: ÁBTL 3.1.5. O-12344/1a. 233.

Photo 15: Köves László, top-secret officer of Division III/II, Ervin Rojkó's recruiter.
Source of photo: ÁBTL 2.8.2.2. Personal dossier of top -secret officers of III/II. – 80.

Photo 16: Emil Hoffmann negotiating with the representatives of Metalimpex in the garden patio of Gundel Restaurant on 24 May 1961.
Source of photo: ÁBTL 3.1.5. O-12344/2. 106.

Photo 17: Emil Hoffmann with a West German citizen in Dorottya Street after leaving the building of Technoimpex Foreign Trade Company on 22 May 1961. Source of photo: ÁBTL 3.1.5. O-12344/2. 96.

Photo 18: Emil Hoffmann taking a typewritten sheet out of his car parking in front of the Gellért Hotel on 22 May 1961.
Source of photo: ÁBTL 3.1.5. O-12344/2. 88.

Photo 19: Emil Hoffmann and Géza Schmőr, one of the staff members of János Sebestyén in Szende Pál Street on 18 January 1961.
Source of photo: ÁBTL 3.1.5. O-12344/2. 80.

Photo 20: Emil Hoffmann and János Sebestyén after leaving the building at 3 Széchenyi Quay on 21 September 1960.
Source of photo: ÁBTL 3.1.5. O-12344/1a. 50.

Photo 21: János Sebestyén after parting Hoffmann in Széchenyi Quay
on 21 September 1960.
Source of photo: ÁBTL 3.1.5. O-12344/1a. 97.

Photo 22: János Sebestyén
Source of photo: ÁBTL 3.1.5. O-12344/1a. 237.

Photo 23: János Sebestyén
Source of photo: ÁBTL 3.1.5. O-12344/1a. 231.

Photo 24: Gustav Meissner
Source of photo: ÁBTL 3.1.5. O-12344/5. 56.

Photo 25: Emil Hoffmann with two ladies at the base of the former Stalin statue in Dózsa György Road.
Source of photo: ÁBTL 3.1.5. O-12344/1a. 85.

Photo 26: Emil Hoffmann and his wife in Váci Street on 18 May 1963.
Source of photo: ÁBTL 3.1.5. O-12344/7. 149.

Photo 27: Emil Hoffmann and his wife at the venue of the Budapest Industrial Fair on 25 May 1962.
Source of photo: ÁBTL 3.1.5. O-12344/4. 161.

INDEX

Aczél, György 187
Adam, Hans 56
Adenauer, Konrad 35, 99, 100, 107
Andreides, Gábor 51
Andrew, Christopher 10
Antonescu, Ion 17
Apró, Antal 122
Arató, Ferenc 84
Arendt, Hannah 30

Baczoni, Jenő 108, 114, 154, 170
Bán, D. András 29
Barabási, Albert-László 183
Baráth, István 162
Barbie, Klaus 19
Bárd, Károly 124
Bartošek, Karel 10
Bartyán, Anna 145
Bauer, Miklós 55, 58, 72, 124
Becher, Kurt 29–31, 34, 97
Beck, János 55
Benda, László 48, 113
Berkó, Lilli 90
Bickenbach, Harald 36
Bickenbach, Karl 29–36, 63, 68, 71, 77–79, 97
Bíró, Gerd 152
Biszku, Béla 122
Bodnár, Zoltán 160
Borbándi, János 159
Borhi, László 10
Borvendég, Zsuzsanna 12, 31, 36, 40, 49, 58, 87, 112, 115, 142, 144, 145, 150, 158, 167, 172, 176, 181, 191
Botlik, József 27
Bölöny, József 110
Brandt, Willy 99
Brody, Alexander 64
Bródy, András (Andreas Brody) 68, 70
Bródy, Illés 69
Bródy, János 64, 68
Bródy, István 30, 62–70, 77
Bródy, Sándor 64, 69
Buzás, József 121, 146

Canaris, Wilhelm 18, 101
Carter, Charles William 44
Castro, Fidel 70
Charles, II 17
Churchill, Winston 25
Crim, Brian E. 189

Csapody, Tamás 133, 147
Cseh, Gergő Bendegúz 169

Cserényi-Zsitnyányi, Ildikó 55
Cseszka, Éva 55
Csillag, Mátyás 144, 145, 148, 149

Darvas, László 144
Dax, Pál 164, 167
Dévai, István 112, 115, 171–174
Doner, Bruno 30
Döring, Wolfgang 103
Dorussen, Han 188

Eichmann, Adolf 29
Énekes, Sándor 171, 173
Englert, Hans 63, 64, 68
Erdei, Petronella 13
Erdélyi, Károly 171
Előry, Zsófia 13

Fábián, Máté 170
Faluvégi, Lajos 167
Farkas, Mihály 155, 164, 169
Fehér, László 136
Fekete, János 32, 33, 48, 57, 76, 84, 85, 89, 92, 112, 113, 115, 120, 151, 191
Feldmann-Flórián, Tibor 147
Ferguson, Niall 184–186
Fiziker, Róbert 98
Fock, Jenő 122
Focke, Albrecht 18
Forgács, Egon 127
Førland, Tor Egil 73
Frei, Otto 99

Gábor, Péter 62
Gál, Lajos Endre (Andreas L. Gal) 47, 48
Gazdag, Ervin 11
Gehlen, Reinhard 26, 27, 72
Geist, Róbert 114, 116, 156, 157, 173, 174, 175, 178–180
Germuska, Pál 13, 52, 61, 75, 159, 160, 165
Goebbels, Joseph 16, 34
Gombosi, Zoltán 54–56
Grützmacher, Gerhard 132, 133
Guérin, Alain 26

Gyarmati, György 60
György, Sándor Balázs 170

Haár, Ottó 93, 168
Halász, András 13
Haller, Kurt 18, 101
Hallstein, Walter 98
Hankiss, Ágnes 185
Havas, Jenő 143
Heuss, Theodor 100
Himmler, Heinrich 28, 29
Hitler, Adolf 16–18, 26, 27, 30, 44, 64, 124, 132, 138
Hoffmann, E. T. A. 15
Hoffmann, Emil 9, 15–27, 36–41, 79, 84, 97–104, 116, 120–153, 173, 175, 178
Hoffmann, Karl Heinz 125
Honvári, János 165
Horn, Gyula 52

Horthy, Miklós 27, 46
Horthy, Miklós, ifj. 22
Horváth, István 91, 99, 102
Horváth, Miklós 159
Horváth, Zoltán 13
Horváth-Lugossy, Gábor 13
Hunt, Linda 189
Hunyady, Sándor 64
Husseini, Haj Amin al- 132

Imam, Said F. 133

Jahnke, Kurt 17
Jávor, Miklós 142
Jelinek, Károlyné 158, 159
Jónai, Endre 146, 149
Junger, Károly 70–74, 76–80, 111, 112, 177

Kádár, János 10, 40, 61, 99, 103–106, 127, 128, 133–136, 138, 139, 151, 152, 185, 187
Kádár, Jánosné 134, 135
Kalmár, Melinda 10
Kaltenbrunner, Ernst 28
Kardos, György 137
Kardos, László 53, 60
Karpik, Ferdinand 22–24, 26
Kasztner, Rezső 29
Kázsmér, János 162
Kenedi, János 10, 11
Keresztes, Lajos 18
Kierkegaard, Søren Aabye 192
Kiesinger, Kurt, Georg 34, 35, 38, 39, 102, 105–108, 151
Kiss, Árpád 110, 122, 125, 162
Koch, Stephen 44, 46, 69
Kohl, Helmut 151
Kondi, László 172
Korzil, Heinrich 176, 177
Kotek, Joël 10
Kovács, Bálint 183
Köln, Harald 84
Kövér, György 84, 167
Köves, László 131
Krahulcsán, Zsolt 117
Kroner, Ernst 17
Kurtán, Sándor 97, 98, 101, 103, 104, 152

Lantos, György 116, 117
Lázár, György 62, 85
Libbey, James K. 73
Lieske, Klaus 126
Ligetfalvi, Gábor 13
Lindner, László 146–148, 152

Macrakis, Kristie 10
Mádai, István 85
Magyar, Balázs 15, 113
Makk, Sándor 114
Marcus, Carl 17–19
Márer, György 69, 70
Markotán, Benedek 11
Marosán, György 137
Máthé, Áron 30

Mátrai, Miklós 114
Meissner, Gustav 36, 132–134
Merkel, Angela 107
Mészáros, Attwel Pál 114
Michael, I 17
Mitrovits, Miklós 44
Mong, Attila 35
Mushaben, Joyce Marie 107
Müller, Hans 124
Müller, Richard 36
Müller, Rolf 117

Nagy, Imre 60, 66, 103, 128
Naményi, Géza 147
Náray, Zsolt 162, 179
Németh, István 91, 99, 102
Noack, Ulrich 20

Nyerges, János 35, 51–61, 74, 78, 84, 89, 104–108, 112, 113, 115, 117, 120, 129, 133, 140, 149–152, 156, 166
Nyers, Rezső 89, 119, 120

Oblath, György 49, 66, 93, 166
Okváth, Imre 15, 113
Olah, Franz 23
Olsen, Jonathan 107
Oplatka, András 76

Pál, Zoltán 54
Palasik, Mária 60
Pálos, István 82
Péter, Gábor 60, 117, 158
Péter, György 117, 119, 120, 171, 190
Petúr, László 64
Pikler, Ferenc 117–120
Pittman, Avril 44
Pogány, Ágnes 92
Porkai, Ernő (Auspitz) 136, 137
Práczki, István 90, 155

Rademacher, Willi Max 101–103
Rákosi, Mátyás 66, 155
Rathkolb, Oliver 23
Révai, Béla 50
Ribbentrop, Joachim von 34, 44
Rojkó, Ervin 130–132, 134, 136, 138, 148, 149
Rónai, Rudolf 102
Ruff, Mihály 98–101, 103, 108
Ruffner, Kevin C. 26

Safrankó, Emánuel 101
Ságvári, Endre 110
Salusinszky, István 33, 90, 167
Saye, Dhurjati Sesha 161
Schachter, Jose 70
Schellpeper, Herbert 63, 66, 78, 79
Schenk, Friedrich 57
Schmidt, Mária 10
Schmőr, Géza 125
Schwanitz, Wolfgang G. 132
Sebes, Sándor 49, 50
Sebestyén, János 110–118, 120–126, 129, 140, 146, 149–151, 153–157, 162–164, 166, 168, 170–175, 177–179

Sebők, Orsolya 166–168
Selvage, Douglas 16, 17, 19, 21, 38–40
Seres, Attila 45, 46
Sieglohr, Viktor Fritz 124
Simon, Endre 114, 118, 125, 153, 156–160, 163, 164, 169, 170, 172–175, 178–181
Simon, Szilárd 13
Sinka, Gyula 155, 158
Sólyom, László 137
Stent, Angela 44
Stone, Randolph K. 21, 22, 25
Strasserné, Chorin Daisy 29
Süssmilch, Bruno 76–79

Szabó, Gergely 191
Szálasi, Ferenc 18
Száll, József 51
Szekér, Nóra 184, 187
Szemjonov, Vlagyimir 20
Szilágyi, Gábor 83
Szolcsányi, Ferenc 101, 129, 130, 136
Szörényi, Attila 55
Stalin 25, 44, 66, 98, 187
Szurdi, István 121

Tihanyi, Péter 147
Tímár, Mátyás 90
Todenhöfer, Gerhard 34, 35, 74, 105–107, 151
Tóth, Eszter 169
Tóth, Imre 27, 28
Tömpe, András 171
Törzsök, Éva 81
Triska, Helmut 22, 23, 27–29, 31, 36, 38, 72, 73, 76, 78, 97

Udvardi, Sándor 155, 174
Ujvári, Zoltán 162

Vadász, Ferenc 97
Vajda, Imre 140
Vajna, Gábor 93, 176, 177
Vályi, Péter 170, 171, 173, 174
Varga, Zsuzsanna 190
Vas, Zoltán 64, 65, 68
Veesenmayer, Edmund 18, 66, 101
Vizi, László Tamás 13

Ward, Hugh 188
Werkmeister, Karl 66
Westerbarkey, Wilhelm Ferdinand 22, 25, 26
Willibald, Würzinger 17
Woog, Edgar 56
Woog, Lydia 56

Zachar, Péter Krisztián 146

Zsolt, Béla 64

This book was published by the Institute for Hungarian Studies (MKI).
Postal address: 1014 Budapest, Úri utca 54–56.
Web: mki.gov.hu
Email: kiado@mki.gov.hu
Chief publisher: Gábor Horváth-Lugossy, Director General of MKI
Chief editor: István Virág
Graphic design, technical editing: Gábor Tóth, Mihály Tóth
Press and bookbinding: OOK-PRESS Nyomda, Veszprém, ookpress.hu

Fabulous Spy Games

Spy games during the Cold War belong to the most intriguing episodes of our recent history: in the bipolar world opposing secret services were competing to obtain political and economic information and state-of-the-art technologies. We might think that the frontlines were demarcated by the Iron Curtain but in fact interests often did not coincide with the ideological boundaries. Under the surface, there was a hardly understandable cooperation among the parties involved where the logic of capital often prevailed over the political objectives. Hungary was also given a role in this secret cooperation as the country ensured the flow of capital between the East and the West by opening an economic and financial channel.

This book describes the development of the cowboy capitalist network that - from the 1970s - took the initiative from the single-party state hierarchy, contributed to plundering and indebting our country and affected the course of the change in political regime from behind the scenes. The network started to take hold and strengthen due to the peculiar collusion of the different secret services when Nazi and Communist functionaries – with the assistance of the democratic West - established trade relations connecting the two world orders. By introducing concrete persons and events, the book would like to describe the way how this network started to gain ground, the reason why - perhaps even at the cost of a political murder - the derailment of the new economic mechanism was in their interest and the peculiar foreign trade techniques they used to establish their financial-economic power.

MAGYARSÁGKUTATÓ INTÉZET

9 786156 117298 >